

[PN 8]*

Reports by auditors under company legislation in the United Kingdom

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Contents

	<i>Paragraphs</i>
Introduction	1–2
Annual financial statements (sections 235 and 236)	
Form and content of auditors' reports	3
Opinion on the financial statements	4–9
Other information required by the Companies Act 1985	10
Revised annual financial statements and directors' reports (sections 245 and 245A)	11–14
Directors' statement: revision by replacement	15
Directors' statement: revision by supplementary note	16
Auditors' report: revision by replacement	17
Auditors' report: revision by supplementary note	18
Revision of directors' report only	19
Date of auditors' report on revised financial statements and directors' reports	20
Other reports arising from the financial statements	21
Abbreviated accounts (Schedule 8 Part III)	22–24
Auditors' report to the directors	25–28
Directors' statements	29
Special report of the auditors	30–32
Summary financial statements	33–35
Exemptions from preparing group financial statements (section 248)	36–38
Distributions (section 271(4))	39–42
Re-registration of a private company as a public company (section 43(3)(b))	43–46
Other reports	
Redemption or purchase by a private company of its own shares out of capital (section 173(5))	47–49
Financial assistance for acquisition of a private company's own shares (section 156(4))	50–52
Allotment of shares by a public company otherwise than for cash (section 103(1))	53–60
Transfer of non-cash assets to a public company by a member of the company (section 104(4)(b))	61–63

* **Editor's note:** Paragraphs 22 to 32 have been superseded by Bulletin 1997/1 Abbreviated accounts in Great Britain. However, Bulletin 1997/1 does not apply to Northern Ireland. Paragraphs 33 to 35 and Example 5 of Appendix 1 are superseded by Bulletin 1999/6 The auditors' statement on the summary financial statement.

Distributions by public companies: the use of initial accounts (section 273(4))	64–66
Ceasing to hold office (section 394)	67–68
Use of the term ‘registered auditors’	69–71
Appendix 1 – Example reports by auditors	
Appendix 2 – Special considerations relating to Northern Ireland	

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Introduction

This Practice Note describes the application of the principles of the Statement of Auditing Standards ('SAS') 600 'Auditors' reports on financial statements' to reports by auditors under the Companies Act 1985 in Great Britain (special factors relating to Northern Ireland are set out in Appendix 2 to this Practice Note). It should be read in conjunction with the Statement 'The scope and authority of APB pronouncements'. Examples of reports by auditors are given in Appendix 1 to this Practice Note. These examples may need to be amended to apply to specialised entities such as banks and insurance companies. **1**

All references in the Practice Note are to the Companies Act 1985 ('the Act'). The guidance given takes account of the law as at 31 May 1994. **2**

Annual financial statements (sections 235 and 236)

Form and content of auditors' reports

Standards and guidance on the form and content of auditors' reports issued as the result of an audit of a company's annual financial statements are contained in Statement of Auditing Standards 600 'Auditors' reports on financial statements' (SAS 600). **3**

Opinion on the financial statements

The auditors of a company have a duty under the Act to make a report to the company's members on all financial statements¹ of the company of which copies are to be laid before the company in general meeting during their tenure of office. If a private company elects not to hold a general meeting then the auditors must still report on all financial statements sent to the members. **4**

The Act requires auditors to state in their report to the company's members whether in their opinion the financial statements have been properly prepared in accordance with the Act, and in particular whether a true and fair view is given: **5**

- (a) in the case of an individual balance sheet, of the state of affairs of the company as at the end of the financial year,
- (b) in the case of an individual profit and loss account, of the profit or loss of the company for the financial year,

¹ In this Practice Note, the expression 'financial statements' is used to denote annual accounts, which is defined by section 262(1) to mean:

- (a) the individual accounts required by section 226, and
- (b) any group accounts required by section 227.

Section 230 allows a parent company to omit the individual profit and loss account from the annual accounts provided that group accounts are prepared, and that the company's profit or loss for the financial year and the fact that this exemption applies are disclosed in the annual accounts.

- (c) in the case of group accounts, of the state of affairs as at the end of the financial year, and of the profit or loss for the financial year, of the undertakings included in the consolidation as a whole ('the group'), so far as concerns members of the company.
- 6 The expression 'properly prepared' includes compliance with the requirements of the Companies Act with respect to the form and content of the balance sheet and profit and loss account and any additional information to be provided by way of notes to the accounts, subject to an overriding requirement that the financial statements should give a true and fair view.
- 7 Accounting Standards set out in Financial Reporting Standards (FRSs) require, in certain circumstances, further 'primary statements' in addition to the balance sheet and profit and loss account. These further primary statements are normally necessary in order that the annual accounts give a true and fair view. The Act does not require the auditors to refer to those 'primary statements' in their report.
- 8 Section 236 of the Act requires that the auditors' report and the copy of it which is delivered to the registrar shall state the names of the auditors and be signed by them. Every copy of the auditors' report which is laid before the company in general meeting, or which is otherwise circulated, published or issued, shall state the names of the auditors.
- 9 The Act requires that the annual financial statements are approved by the board of directors and that the balance sheet is signed by a director on the board's behalf (section 233). The auditors may not sign their report until the financial statements have been so approved and they have considered all evidence necessary in order to express an opinion. SAS 600 and [draft] SAS 150 'Subsequent events' give detailed guidance on this area.

Other information required by the Companies Act 1985

- 10 Other statutory requirements give auditors additional reporting responsibilities which in certain cases, as described below, affect the wording of their report on a company's annual financial statements. Opinions expressed following these reporting responsibilities are given in the opinion section of the report after the opinion on the financial statements. The statutory requirements are as follows:
- (a) *Section 235(3)* The auditors are required to consider whether the information given in the directors' report is consistent with the financial statements and, if they are of the opinion that it is not, they must state that fact in their report. Guidance on this area is contained in [draft] SAS 160 'Other information in documents containing audited financial statements'.
- (b) *Section 237(2)* The auditors are required to carry out such investigations as are necessary to enable them to form an opinion as to:

- (i) whether proper accounting records have been kept by the company and proper returns adequate for their audit have been received from branches not visited by them; and
- (ii) whether the company's individual accounts are in agreement with the accounting records and returns.

If the auditors reach a satisfactory opinion as to (i) and (ii) above they do not need to state this in their report. However, if they are of the opinion that either

of these requirements has not been met, they are required to state this fact in their report.

- (c) *Section 237(3)* If the auditors fail to obtain all the information and explanations they consider necessary for the purposes of their audit they are required by section 237(3) to state the fact in their report. For example, such a statement is normally required when there has been a limitation of the scope of the audit, leading to a qualification of the auditors' report. Limitations of audit scope and the consequential effect on the auditors' report are dealt with in SAS 600.
- (d) *Section 237(4)* If the financial statements do not comply with the requirements of Schedule 6 'Disclosure of information: emoluments and other benefits of directors and others' then the auditors must set out the required particulars in their report so far as they are reasonably able to do so.

Revised annual financial statements and directors' reports (sections 245 and 245A)

The Act grants directors the authority to revise annual financial statements or directors' reports which do not comply with the Act and also gives the Secretary of State, or a person authorised by him, power to apply to the court for an order requiring the directors to revise defective accounts. The procedures for the voluntary revision of financial statements by the directors are set out in the Companies (Revision of Defective Accounts and Report) Regulations 1990 (SI 1990/2570) (the 'Regulations'). The only revisions which may be made are those necessary to correct errors in the original financial statements and directors' reports. **11**

Annual financial statements and directors' reports may be corrected by complete replacement or the issue of a supplementary note. The regulations contain no conditions which require one form or the other to be used, and therefore the directors may use whichever appears more appropriate to the circumstances leading to the revision. In both instances, the financial statements or report are to be prepared as if prepared and approved by the directors as at the date of the original annual financial statements or directors' report. The auditors' opinion on the view given by the revised financial statements is given as at the date on which the original financial statements were approved. **12**

Where the company has prepared and filed abbreviated accounts (see paragraphs 22 to 32 below), the directors also need to consider the effect of the revision on those abbreviated accounts. They are required to file either a revised version of the abbreviated financial statements or a statement that the revision of the full financial statements does not affect the abbreviated accounts. **13**

Where the auditors' report on the original annual financial statements was not made by the company's current auditors, the directors may resolve that the auditors' report on the revised financial statements and/or directors' report be made by the auditors who reported on the original financial statements, providing that they agree to do so and would be eligible for appointment as auditor of the company. **14**

Directors' statement: revision by replacement

The directors must include a statement concerning the revision in a prominent position in the revised financial statements. In the case of a revision by replacement, regulation 4(2)(a) requires this to state: **15**

- (i) that the revised accounts replace the original annual accounts for the financial year (specifying it);
- (ii) that they are now the statutory accounts of the company for that financial year;
- (iii) that they have been prepared as at the date of the original annual accounts and not as at the date of revision and accordingly do not deal with events between those dates;
- (iv) the respects in which the original annual accounts did not comply with the requirements of the Act; and
- (v) any significant amendments made consequential upon the remedying of those defects.’

Directors’ statement: revision by supplementary note

16 When revision is effected by supplementary note, the note itself should provide adequate information concerning the defect in the original financial statements and any consequential amendments, and is required by regulation 4(2)(b) to include a statement:

- (i) that the note revises in certain respects the original annual accounts of the company and is to be treated as forming part of those accounts; and
- (ii) that the annual accounts have been revised as at the date of the original annual accounts and not as at the date of revision and accordingly do not deal with events between those dates.’

Auditors’ report: revision by replacement

17 Where revision is effected by replacement, the auditors’ report incorporates the following elements:

- (a) Addressee – the report is addressed to the members.
- (b) Introductory paragraph – the revised financial statements replace the original financial statements.
- (c) Respective responsibilities – the auditors distinguish between their responsibilities and those of the directors by including in their report:
 - (i) a statement that the financial statements are the responsibility of the directors;
 - (ii) a reference to a description of those responsibilities when set out elsewhere in the financial statements or accompanying information;
 - (iii) a statement that the auditors’ responsibility is to express an opinion on the revised financial statements, seen as at the date the original financial statements were approved, and on whether the original financial statements failed to comply with the Companies Act 1985 in the respects identified by the directors.

Where the financial statements or accompanying information (for example, the directors’ report) do not include an adequate statement of directors’ relevant responsibilities, the auditors’ report includes a description of those responsibilities.

- (d) Basis of opinion – the auditors indicate their compliance or otherwise with Auditing Standards, together with the reasons for any departure therefrom. They also indicate that the audit process includes:
 - (i) examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements;

- (ii) assessing the significant estimates and judgements made by the directors in preparing the financial statements;
- (iii) considering whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed;
- (iv) performing additional procedures to assess whether the revisions made by the directors are appropriate and have been properly made.

The auditors also indicate that they planned and performed their audit so as to obtain reasonable assurance that the revised financial statements are free from material misstatement, whether caused by fraud or other irregularity or error, and that they have evaluated the overall presentation of the revised financial statements.

- (e) Opinion – the auditors state whether in their opinion:
 - (i) the revised accounts have been properly prepared in accordance with the provisions of the Act as they have effect under the Regulations, and in particular whether a true and fair view, seen as at the date of the original annual accounts were approved, is given by the revised accounts with respect to the matters set out in section 235(2)(a) to (c) of the Act; and
 - (ii) the original annual accounts failed to comply with the requirements of the Act in the respects identified by the directors.

Auditors' report: revision by supplementary note

When revision is effected by supplementary note, the auditors' report incorporates the following elements: **18**

- (a) Addressee – the report is addressed to the members.
- (b) Introductory paragraph – the revised financial statements replace the original financial statements and consist of the supplementary note together with the original financial statements.
- (c) Respective responsibilities of directors and auditors – as in paragraph 17(c) above.
- (d) Basis of opinion – as in paragraph 17(d) above.
- (e) Opinion – as in paragraph 17(e) above.

Revision of directors' report only

If revision is made only of the directors' report, the auditors are required to report whether the information in the revised directors' report is consistent with the annual financial statements. Such a report by the auditors will include the following elements: **19**

- (a) Addressee – the report is addressed to the members.
- (b) Introductory paragraph – the auditors have considered the information given in the revised directors' report, which replaces the original report. The revised report has been prepared under the Companies (Revision of Defective Accounts and Report) Regulations 1990.
- (c) Respective responsibilities – the auditors distinguish between their responsibilities and those of the directors by including in their report statements that preparation of the report is the responsibility of the directors; and that their responsibility is to report on whether the revised statement is consistent with the financial statements.
- (d) Basis of opinion – the auditors indicate that their work is limited to considering only the question of consistency.

- (e) Opinion – the auditors state whether in their opinion the information given in the revised report is consistent with the annual accounts for the relevant year (specifying the year).

Date of auditors' report on revised financial statements and directors' reports

- 20** The date of the auditors' report is the date on which the auditors sign their report expressing their opinion.

Other reports arising from the financial statements

- 21** The Companies Act requires auditors to give other reports arising from their reports on a company's annual financial statements. SAS 600, which indicates that 'Much of the guidance provided can be adapted to auditors' reports on financial information other than financial statements', will normally be applicable when giving these reports. Auditors' reports on other information therefore follow the structure set out in SAS 600 and include a description of the basis of the opinion expressed. A statement of the respective responsibilities ought ordinarily also to be included, unless:
- (a) the directors have no responsibilities concerning the presentation to shareholders of information on which the auditors report, so that the auditors report direct to the shareholders rather than attesting to a report made by the directors; or
 - (b) the auditors' report is addressed to the company or the directors, and is intended primarily for private use. However, where the auditors are aware that their report is intended for wide distribution, they may nevertheless wish to include a description of respective responsibilities so that a third party reader of their report is aware of the general nature of those responsibilities.

Abbreviated accounts (Schedule 8 Part III)*

- 22** Companies which qualify as small or medium-sized in relation to a financial year are entitled to exemptions in relation to the individual financial statements that are filed with the registrar of companies (though full financial statements required by section 226 and 227 must still be prepared and sent to members of the company). The size and eligibility criteria are set out in sections 246, 247 (and, for parent companies, 249) of the Companies Act: the exemptions to which such companies are entitled are set out in Part III of Schedule 8. Accounts prepared in accordance with Part III of Schedule 8 are referred to as 'abbreviated accounts'. Legal advice has indicated that, although they must be properly prepared in accordance with Part III of Schedule 8 to the Act, the abbreviated accounts are not required to give a true and fair view (in practice, they will not do so).
- 23** In addition, small companies and groups may prepare their full financial statements taking advantage of exemptions set out in Parts I and II of Schedule 8 (inserted by SI 1992 2542). Where small companies or groups take advantage of this facility, the abbreviated accounts will be derived from the financial statements prepared using the available exemptions. The extent of the exemptions for full financial statements

** Editor's note: Paragraphs 22 to 32 have been superseded by Bulletin 1997/1 Abbreviated accounts in Great Britain. They continue to apply to Northern Ireland, subject to Appendix 2.*

is less than for abbreviated accounts, and the resulting financial statements are required to give a true and fair view. The legislation specifically provides, however, that they shall not be deemed not to do so by reason only of the fact that the exemptions have been used. Guidance for auditors reporting on financial statements prepared using the exemptions is set out in paragraphs 49 to 51 of SAS 600 and illustrative wording for reports on such financial statements is given in example 5 of Appendix 2 to the SAS.

There is no provision in the Companies Act for abbreviated group accounts. Hence, if eligible small and medium-sized groups do not take advantage of the exemption from the requirement to prepare group accounts available under section 248, they must file the group accounts which they prepare for their members. **24**

Auditors' report to the directors

If the directors propose to file abbreviated accounts, it is the auditors' duty to provide them with a report stating whether in their opinion: **25**

- (a) the company is entitled to the exemptions; and
- (b) the abbreviated accounts have been properly prepared in accordance with Part III of Schedule 8.

The purpose of this report would appear to be to confirm to the directors that they are entitled to file abbreviated accounts; however, by requiring the auditors to report that the abbreviated accounts are properly prepared, the Act assumes that the abbreviated accounts will already have been prepared. In practice it is likely that, before they prepare abbreviated accounts, the directors will approach the auditors for oral confirmation where they are unsure as to whether they are entitled to deliver abbreviated accounts. **26**

If the auditors cannot make the positive statements indicated at paragraph 25 (a) and (b) above, they will report to the directors stating this. The directors may then not proceed with the preparation of abbreviated accounts as the company would not be permitted to file them. This is because positive confirmation of these matters is required to be given in the auditors' special report on abbreviated accounts (see paragraph 30 below). The possible effects of a qualified opinion on the full or modified financial statements upon the ability of the auditors to confirm to the directors that the company is entitled to file abbreviated accounts are discussed in paragraph 28 below. **27**

If the report on the financial statements is qualified or refers to a fundamental uncertainty, abbreviated accounts can nevertheless be regarded as being properly prepared so long as they are an accurate extract. If, however, the qualification or fundamental uncertainty relates to one or more of the determinants for exemption, the auditors consider whether the maximum effect of the matter giving rise to the qualification or fundamental uncertainty would cause two or more of the determinants (that is, the turnover, employee or balance sheet totals) to exceed the exemption limits. If the qualification is in the form of an adverse opinion or a disclaimer of opinion, the auditors consider whether they can properly assess the determinants for exemption on the basis of financial statements which in their opinion are, or could be, misleading as a whole. **28**

Directors' statements

- 29** The balance sheet in the abbreviated accounts must include the following above the director's signature:
- (a) a statement that advantage has been taken of the exemptions conferred by Section A (for small companies) or Section B (for medium-sized companies) of Part III of Schedule 8; and
 - (b) a statement of the grounds on which, in the directors' opinion, the company is entitled to those exemptions.

Special report of the auditors

- 30** Abbreviated accounts delivered to the registrar of companies must be accompanied by a special report of the auditors. This report will incorporate the following elements:
- (a) Addressee – the Act does not state to whom the report should be addressed; in the absence of any other requirement it is suggested that reports are addressed to the company.
 - (b) Introductory paragraph – identifying the abbreviated accounts examined and the scope of the report.
 - (c) Respective responsibilities – the auditors distinguish between their responsibilities and those of the directors.
 - (d) Basis of opinion – the auditors indicate that their work is limited to determining whether the company is entitled to the exemptions claimed in the directors' statement, and an examination of the abbreviated accounts and the financial statements on which they are based to confirm compliance with Part III of Schedule 8.
 - (e) Opinion – the auditors state that in their opinion:
 - (i) the company is entitled to the exemptions claimed in the directors' statement; and
 - (ii) the abbreviated accounts have been properly prepared in accordance with Part III of Schedule 8.
 - (f) Other information required – the report includes the full text of the auditors' report under section 235 on the financial statements. If the report under section 235 was qualified, the auditors must also include any further material necessary to understand the qualification.
 - (g) Date – the date of the auditors' report is the date on which the auditors sign (in manuscript) their report. The auditors will not be in a position to do this until after the directors have approved and signed the abbreviated accounts. It is preferable for auditors to complete and sign their report on or as soon as possible after the date of the report on the financial statements in order that there is no impression given that the report on the abbreviated accounts in any way 'updates' the audit report on the financial statements.
- 31** As noted, the Act requires that if the auditors' report was qualified any further material necessary to understand the qualification must also be given (see paragraph 30 (f)). Additional information will also be included if it is necessary to understand any fundamental uncertainties referred to in the auditors' report. Thus, where the qualification or reference to a fundamental uncertainty includes a reference to a note to the financial statements, without stating explicitly all the relevant information contained in that note, the auditors will need to add the necessary information

to their report on the abbreviated accounts, immediately following the reproduction of the text of their report on the financial statements.

Where there is to be a change of auditors, it is desirable to plan for the auditors who reported on the financial statements to report on the abbreviated accounts. If this is not possible, the new auditors performing the latter function can accept the financial statements audited by their predecessor as a basis for their work unless they have grounds to doubt the accuracy of the determinants for exemption, for example because of a qualified opinion. The new auditors indicate in their report by whom the audit of the financial statements was carried out. **32**

Summary financial statements*

Section 251 provides that, in such cases as may be specified by the Secretary of State, listed companies need not send to their members copies of the financial statements, directors' reports and auditors' report, but may instead send them a 'summary financial statement'. **33**

A summary financial statement must be derived from the annual financial statements and directors' report, and must explicitly follow the detailed requirements concerning its form and content, set out in the Companies (Summary Financial Statement) Regulations 1992 (SI 1992/3075). It is required to contain a statement by the company's auditors expressing their opinion as to whether these requirements have been met. The summary statement must also state whether the auditors' report on the full financial statement included a qualified opinion and if so must give the auditors' report in full. **34**

The auditors' statement incorporates the following elements: **35**

- (a) Addressee – the Act does not specify to whom the auditors' statement is to be addressed; in the absence of any other requirement it may be addressed to the shareholders.
- (b) Introductory paragraph – identifying the summary financial statement.
- (c) Respective responsibilities – the auditors distinguish between their responsibilities and those of the directors, and state that the former is limited to determining whether the requirements concerning consistency and compliance have been met.
- (d) Basis of opinion – the auditors indicate that their work was conducted in accordance with the Auditing Guideline 'The auditor's statement on the summary financial statement'.
- (e) Opinion – the auditors state that in their opinion:
 - (i) the summary financial statement is consistent with the full financial statements and directors' report of the company for the year concerned; and
 - (ii) the statement complies with the requirements of section 251 of the Companies Act 1985 and regulations made under it.
- (f) Other information required – if the auditors' report on the full financial statements was qualified, the auditors state this fact and refer to their full report, which is required to be included in the summary financial statement.
If the auditors' report on the full financial statements includes an explanatory paragraph dealing with a fundamental uncertainty, they refer to the uncertainty in their statement on the summary financial statement.

* **Editors' note:** Paragraphs 33 to 35 are superseded by Bulletin 1999/6 The auditors' statement on the summary financial statement.

- (g) Date – the date of the auditors’ report is the date on which the auditors sign (in manuscript) their report. The auditors will not be in a position to do this until after the directors have approved and signed the summary statement. It is preferable for auditors to complete and sign their report on or as soon as possible after the date of the report on the full financial statements in order that there is no impression given that the report on the summary statement in any way ‘updates’ the audit report on the financial statements.

Exemptions from preparing group financial statements for small and medium-sized groups (section 248)

- 36** A parent company need not prepare group financial statements for a financial year if the group qualifies as a small or medium-sized group (and is not an ineligible group). Accordingly in the case of a small or medium-sized group, the parent company is only required to prepare and deliver to the registrar individual financial statements.
- 37** There is no provision for small or medium-sized groups to file abbreviated accounts: the parent company must prepare either individual financial statements or full group financial statements. However, a small group may take advantage of certain exemptions in the preparation of its full group financial statements (see paragraph 23 above).
- 38** If the directors of a parent company propose to take advantage of the exemption in section 248 it is the auditors’ duty to provide them with a report, which must be attached to the individual financial statements, stating whether in their opinion the company is entitled to the exemption.

Distributions (section 271(4))

- 39** The Act prohibits all companies from making a distribution otherwise than out of profits available for the purpose.
- 40** Where the auditors have issued a ‘qualified report’ on the last annual financial statements, the company’s ability to make a distribution, by reference to those financial statements, could be in doubt. In such circumstances, the company may not proceed to do so unless the auditors have made a statement under section 271(4) concerning the company’s ability to make the distribution. For the purpose of this additional statement a ‘qualified report’ is specified by section 271(3) as a report which is not without qualification to the effect that in the auditors’ opinion the financial statements have been properly prepared in accordance with the Act.
- 41** The auditors’ statement under section 271(4) will incorporate the following elements:
- (a) Addressee – the statement required of the auditors can be included as a separate paragraph in the audit report to the members on the financial statements. If, instead, a separate statement is made then it would be appropriate for it to be addressed to the members and sent to the company secretary.
- (b) Introductory paragraph – the auditors refer to their audit which will have been carried out in accordance with Auditing Standards issued by the Auditing

Practices Board and state the date on which their opinion was expressed and that their opinion was qualified.

- (c) Basis of opinion – the statement is restricted to an evaluation of the auditors' qualified report on the last annual financial statements in the context of distributable profits.
- (d) Opinion – the auditors are required to state whether in their opinion the subject matter of the qualification is material for determining whether proposed distributions, and those which have not yet been proposed, are permitted. A qualification is not material for this purpose if the financial effect of the matters giving rise to qualification could not be such as to reduce the distributable profits below the levels required for the purpose of such distributions. The level of the proposed or potential distribution will always be quantified in the opinion.

Where the maximum effect of a qualification cannot be quantified, it would normally be material for distribution purposes unless the auditor can conclude that the effect of the qualification on the distributable profits could only be favourable. A disclaimer of opinion on the financial statements as a whole would be material as the auditors would be unable to form an opinion on the amount at which the company's distributable profits are stated.

- (e) Date – if a separate statement is made, the date used is that on which the statement is completed. In any case the statement must be available to be laid before the company in general meeting before the distribution in question is made, and so the report will have to be completed by that date.

On a change of auditors, the report under section 271(4) can only be made by the auditors who reported on the last annual financial statements. **42**

Re-registration of a private company as a public company (section 43(3)(b))

A private company applying to re-register as a public company is required to deliver certain documents to the registrar of companies including a copy of a balance sheet (together with the related notes) of the company prepared as at a date not more than seven months before the application, together with an auditors' report thereon without material qualification, and a further written statement by the company's auditors concerning the amount of the company's net assets. **43**

The written statement will incorporate the following elements: **44**

- (a) Addressee – the Act does not state to whom the statement should be addressed; in the absence of any other requirement it is suggested that reports should be addressed to the company and sent to the company secretary for despatch to the registrar of companies.
- (b) Introductory paragraph – the report is restricted to the relevant audited balance sheet of the company.
- (c) Basis of opinion – the auditors indicate that their work is limited to an examination of the relationship between the company's net assets and its called-up share capital and undistributable reserves as stated in the balance sheet already audited, so that it is clear that no further audit work has been carried out.
- (d) Opinion – the auditors express an opinion that as at the balance sheet date the balance sheet shows that the amount of the company's net assets was not less than the aggregate of its called-up share capital and undistributable reserves.

- (e) Other information required – the Act requires that the auditors’ report on the relevant balance sheet be without any material qualification. For a qualified report to be acceptable, the auditors are required to state in their report that the matter giving rise to the qualification is not material for determining (by reference to the balance sheet) whether at the balance sheet date the amount of the net assets of the company were not less than the aggregate of its called-up share capital and undistributable reserves. In determining whether a qualification is not material for the above purpose, similar considerations are applied as for distribution reports under section 271.
 - (f) Date – the statement by the auditors is dated when it is signed, which cannot be earlier than the date of the auditors’ report on the relevant balance sheet.
- 45** If there is a change of auditors, the new auditors can accept the balance sheet audited by the previous auditors, as a basis for the work referred to at (c) above, unless the auditors’ report thereon contains a material qualification. The new auditors should indicate in their report by whom the audit of the relevant balance sheet was carried out.
- 46** Illustrative wording for use when the company’s financial statements were prepared within seven months before application, is shown in example 8 of Appendix 1. If the latest financial statements are not eligible for use, it will be necessary for the company to prepare a balance sheet. This balance sheet is required to be audited and the auditors’ report should be prepared based on Statement of Auditing Standards 600 ‘Auditors’ reports on financial statements’. Illustrative wording is given in example 9 of Appendix 1.

Other reports

Redemption or purchase by a private company of its own shares out of capital (section 173(5))

- 47** Where a private company redeems or purchases its own shares wholly or partly out of capital, the Act requires this to be approved by a special resolution of the company to which special voting rules apply. In addition, the Act requires the directors to make a statutory declaration in the prescribed form specifying the capital payment permitted by section 171(3). A factor in computing the capital payment permitted by the Act is the amount of the company’s distributable profits, determined by the directors by reference to relevant accounts prepared as at any date within the three months prior to the date of their statutory declaration. The relevant accounts for this purpose are defined by the section as such as to enable a reasonable judgement to be made as to the amounts of profits, losses, assets and liabilities, provisions, share capital and reserves. In the statutory declaration the directors must also state that, having made full inquiry into the affairs and prospects of the company, they have formed the opinion:
- (a) that there will be no grounds on which the company could be found to be unable to pay its debts immediately after the date on which the payment out of capital is proposed to be made (for this purpose the directors must take account of all the company’s prospective and contingent liabilities); and
 - (b) that, having regard to their intentions with respect to the management of the company’s business during the year immediately following that date and to the

amount and character of the financial resources which will in their view be available to the company during that year, the company will be able to continue to carry on business as a going concern throughout the year; and that accordingly the company will be able to pay its debts as they fall due throughout that year.

The declaration must be delivered to the registrar of companies, and must be available at the meeting at which any special resolution is to be proposed approving the payment out of capital. **48**

The auditors are required to make a report regarding the directors' declaration to be attached to the declaration. Their report will incorporate the following elements: **49**

- (a) Addressee – the report is required by the Act to be addressed to the directors.
- (b) Introductory paragraph – the report concerns the directors' declaration.
- (c) Basis of opinion – the Act requires that the report shall state that the auditors have inquired into the state of the company's affairs in order to review the bases for the statutory declaration.
- (d) Opinion – the auditors are required to state that:
 - (i) the amount specified in the directors' declaration as the permissible capital payment for the shares in question is, in their opinion, properly determined in accordance with sections 171 and 172 of the Act; and
 - (ii) they are not aware of anything to indicate that the opinion expressed by the directors in their declaration as to any of the matters mentioned in section 173(3) is unreasonable in all the circumstances.
- (e) Date – the directors' declaration and therefore the attached auditors' report are required to be made in the week before the resolution is passed specifying the amount of the permissible capital payment for the shares in question. The auditors' report cannot be dated earlier than the date of the directors' declaration to which it relates. The date of the auditors' report is the date on which the auditors sign their report expressing their opinion.

There is no provision for the report to be other than unqualified. The auditors do not issue any report unless their opinion is unqualified.

Financial assistance for acquisition of a private company's own shares (section 156(4))

In general a company may only give financial assistance for the purchase of its shares or those of its holding company if it meets certain conditions set out in section 153 of the Act. These conditions are relaxed in the case of a private company where the acquisition concerns shares in the company itself or, in the case of a subsidiary, shares in its holding company (if the holding company is a private company). Where a private company wishes to make use of the relaxation, the giving of assistance must normally be approved by a special resolution of the company. **50**

Before the financial assistance is given, the directors must make a statutory declaration stating: **51**

- (a) the prescribed particulars of the financial assistance to be given, the person to whom the assistance is to be given and the business of the company of which they are directors; and

- (b) that they have formed the opinion that there will be no ground on which the company could be found to be unable to pay its debts immediately following the giving of the financial assistance (for this purpose the directors must take account of all the company's prospective and contingent liabilities); and
- (c) (i) if it is intended to commence the winding-up of the company within 12 months of the giving of the financial assistance, that the company will be able to pay its debts in full within 12 months of the commencement of the winding up; or
 - (ii) in any other case, that the company will be able to pay its debts as they fall due during the year immediately following the giving of the assistance.

The declaration must be delivered to the registrar of companies, and must be available at the meeting at which any special resolution is to be proposed approving the financial assistance.

52 An auditors' report regarding the directors' declaration is required to be attached to the declaration. The report will incorporate the following elements:

- (a) Addressee – the report is required by the Act to be addressed to the directors.
- (b) Introductory paragraph – the report concerns the directors' declaration.
- (c) Basis of opinion – the Act requires that the report shall state that the auditors have inquired into the state of the company's affairs in order to review the bases for the statutory declaration.
- (d) Opinion – the auditors must state that they are not aware of anything to indicate that the opinion expressed by the directors in their declaration as to any of the matters mentioned in section 156(2) is unreasonable in all the circumstances.
- (e) Date – the directors' declaration and hence the attached auditors' report are required to be made in the week before the passing of the resolution normally required for approval of the giving of financial assistance. The auditors' report is not dated earlier than the date of the directors' declaration to which it relates. The date of the auditors' report is the date on which the auditors' sign their report expressing their opinion.

There is no provision for the report to be other than unqualified. The auditors do not issue any report unless their opinion is unqualified.

Allotment of shares by a public company otherwise than for cash (section 103(1))

53 Companies may allot shares and receive payment for them in a form other than cash. Where a public company proposes to allot shares for such non-cash consideration it must, subject to certain exceptions, obtain during the six months before the date of the allotment a report on the value of the assets to be received in payment for the shares. (These provisions do not generally apply if the allotment relates to a merger or take-over, or bonus shares capitalised from reserves.)

54 The report must be made by independent accountants who either are the auditors, or are qualified to act as auditors, of the allotting company. Usual practice is for a company's own auditors to issue the report. The independent accountants are entitled to rely on another person, a specialist, who appears to them to have the requisite knowledge and experience and who is not, *inter alia*, an officer or a servant of the company, to make the valuation of all or part of the assets. For this purpose the term 'officer or servant' does not include auditors.

Guidance on the work to be carried out when relying on a specialist is contained in [draft] SAS 520 'Using the work of an expert'. That other person must report to the independent accountants so as to enable them to make their own report. **55**

A person carrying out a valuation or making a report is entitled to require from the officers of the company such information and explanations as are considered necessary for that purpose. **56**

The independent accountants' report will incorporate the following elements: **57**

- (a) Addressee – the report is made to the company itself and sent to the company secretary for circulation to the proposed allottees.
- (b) Introductory paragraph/s – as well as expressing the opinion set out in (d) below, the report must include the following information:
 - (i) the nominal value of the shares to be wholly or partly paid for by the consideration;
 - (ii) any premium payable on the shares;
 - (iii) a description of the consideration;
 - (iv) a description of the part of the consideration valued by the independent accountants, the method used to value it and the date of the valuation; and
 - (v) the extent to which the nominal value of the shares and any premium are to be treated as paid up (1) by the consideration, and (2) in cash.
- (c) Basis of opinion – the report indicates the basis of valuation of the consideration for the allotment of shares.
- (d) Opinion – the independent accountants must state that in their opinion:
 - (i) if the valuation has been made by another person, that it appears to be reasonable to accept or arrange for such a valuation. In this case, the report also states the specialist's name and what knowledge and experience he has to carry out the valuation, and describe the part of the consideration valued by him, the method used to value it and specify the date of the valuation;
 - (ii) the method of valuation of the consideration was reasonable in all the circumstances;
 - (iii) there appears to have been no material change in the value of the consideration since the date at which the valuation was made; and
 - (iv) on the basis of the valuation the value of the consideration, including any cash to be paid, is not less than the total amount to be treated as paid up on the shares together with the whole of any premium.
- (e) Date – the date used is that on which the report is signed.

There is no provision for the report to be qualified. The independent accountants cannot issue any report unless their opinion is unqualified. **58**

In certain circumstances the allotment of shares may represent only a part of the consideration for the transfer of a non-cash asset to the allotting company (e.g. cash may also be paid). In such cases, the independent accountants' report must cover the proportion of the value of the non-cash assets which applies to the full value of shares issued (i.e. nominal value and any premium). The report must also state: **59**

- (a) what valuations have been made in order to determine that proportion of the consideration;
- (b) the reason for those valuations;
- (c) the method and date of any such valuation; and
- (d) any other matters which may be relevant to that determination.

60 Before the independent accountants can make a statement that there appears to have been no material change in the value of the asset since the valuation, they may have to perform additional work. If the period of time between the making of the valuation and the date of the report is such that there may have been a change in the value, the independent accountants will need to reconsider the valuation. If they made arrangements for someone else to perform the valuation they should obtain written confirmation from that person as to whether there has been a change in value.

Transfer of non-cash assets to a public company by a member of the company (section 104(4)(b))

61 During the first two years following its registration (or re-registration if it was previously a private company) a public company may not lawfully purchase from certain of its members a non-cash asset for a consideration worth one tenth or more of the nominal value of the company's issued share capital unless the terms of the transfer have been approved by an ordinary resolution. Similar restrictions apply where a third party acquires a non-cash asset for which the company pays.

62 In addition to approval by an ordinary resolution, a valuation report (similar to that described in paragraphs 53 to 60 above) on the asset purchased by the company (and on any asset given by the company in payment) must have been made to the company during the six months preceding the transfer. The report must be made by independent accountants qualified to act as the company's auditors and will incorporate the following elements:

- (a) Addressee – the report is made to the company itself and sent to the company secretary for circulation to the members of the company and to the person selling the asset.
- (b) Introductory paragraph/s – as well as expressing the opinion set out in (d) below, the report must include the following information:
 - (i) the consideration to be received by the company, describing the asset in question, and the consideration to be given by the company and specifying any amounts to be received or given in cash, and
 - (ii) the method and date of valuation.
- (c) Basis of opinion – the report indicates the basis of valuation of the consideration.
- (d) Opinion – the independent accountants must state that in their opinion:
 - (i) if the valuation has been made by another person, it appears to be reasonable to accept such a valuation. In this case, the report also states the specialist's name and what knowledge and experience he has to carry out the valuation, and describe the part of the consideration valued by him, the method used to value it and specify the date of the valuation;
 - (ii) the method of valuation was reasonable in all the circumstances;
 - (iii) there appears to have been no material change in the value of the asset in question since the date at which the valuation was made; and
 - (iv) on the basis of the valuation used, the value of the consideration to be received by the company is not less than the value of the consideration to be given by the company.
- (e) Date – the date used is that on which the report is signed. Circulation of the report must not be later than the notice calling the meeting at which the resolution to approve the transfer is proposed.

There is no provision for the report to be qualified. The independent accountants cannot issue any report unless their opinion is unqualified. **63**

Distributions by public companies: the use of initial accounts (section 273(4))

Paragraphs 39 to 42 of this Practice Note describe the statement required where a company wishes to make a distribution and a qualified audit report has been given on the annual financial statements. A company may wish to make a distribution during its first accounting reference period or after the end of that period but before the accounts for that period have been laid before a general meeting or delivered to the registrar of companies. **64**

‘Initial accounts’ must be prepared for this purpose which, in the case of a public company, are required to comply with section 226 of, and Schedule 4 to, the Act with respect to the form and content of the balance sheet and profit and loss account and any additional information to be provided by way of notes to the accounts. The initial accounts must be approved by and signed on behalf of the directors in the same manner as annual financial statements, and must be delivered to the registrar of companies. Group accounts are not required. **65**

In the case of a public company, the auditors are required to make a report on the initial accounts. The report will incorporate the following elements: **66**

- (a) Addressee – the Act does not state to whom the report should be addressed; in the absence of any other requirement it may be addressed to the directors.
- (b) Introductory paragraph/s – the report is concerned with the initial accounts. The period covered by the initial accounts will be identified.
- (c) Basis of opinion – the audit of the initial accounts should be carried out in accordance with Auditing Standards issued by the Auditing Practices Board. The report contains the relevant paragraphs from Appendix 2 of SAS 600 ‘Auditors’ reports on financial statements’, dealing with the respective responsibilities of directors and auditors and the basis of opinion.
- (d) Opinion – the auditors must state whether, in their opinion, the accounts have been properly prepared within the meaning of section 273(2). For these purposes, the term ‘properly prepared’ means that the accounts must give a true and fair view of the state of the company’s affairs as at the balance sheet date and of its profit or loss of the relevant period, and must comply with the provisions of section 226 of, and Schedule 4 to, the Act subject to such modifications as are necessary because the accounts do not relate to an accounting reference period.
If the opinion above is qualified, the auditors must state whether the matter giving rise to the qualification is material for determining whether the distribution is permitted.
- (e) Date – the same principles apply for initial accounts as for annual financial statements.

Ceasing to hold office (section 394)

When a firm of registered auditors ceases to hold office as auditors of a company – whether as a result of resignation, removal by the directors, or a decision not to stand for re-appointment as auditors – section 394 of the Act requires that a statement is deposited by the auditors at the company’s registered office, stating whether there **67**

are circumstances which they consider should be brought to the attention of the company's members or creditors.

- 68** Where such circumstances exist, the statement will include a description of them and the auditors are further required by the Act to send a copy to the registrar of companies within 28 days of the date of deposit, unless the company applies to the Court that the statement should not be sent out.

Use of the term 'registered auditors'

- 69** When issuing reports under company legislation, auditors follow the principles established in SAS 600. This requires reports on financial statements to include the manuscript or printed signature of the auditors (SAS 600.2). The signature is normally that of the firm because the firm as a whole assumes responsibility for the report. To assist identification, the report normally also includes the location of the auditors' office and, where appropriate, indicates their status as registered auditors.
- 70** Where appointed as auditors of a company (or of another entity required to appoint registered auditors) auditors therefore include the words 'registered auditors' in their reports on financial statements. Other reports required under company legislation are commonly required to be given by the appointed auditors of the company concerned; in all such cases, the words 'registered auditor(s)' appears after the auditors' signature.
- 71** Reports relating to the transfer of non-cash assets to a public company or allotment of shares by a public company otherwise than for cash, may be given either by the company's appointed auditors or independent accountants who are qualified to be appointed as auditors. Where company law does not require a report to be given by the appointed auditors, that report need not include the words 'registered auditors'.

Appendix 1 – Example reports by auditors

- 1 Auditors' report on revised financial statements: revision by replacement.
- 2 Auditors' report on revised financial statements: revision by supplementary note.
- 3 Auditors' report on revised directors' report.
- 4 Report on abbreviated accounts.
- 5 Auditors' statement on a summary financial statement.
- 6 Report on entitlement to exemption from preparing group financial statements.
- 7 Statement on a company's ability to make a distribution.

- 8 Statement when a private company wishes to re-register as a public company.
- 9 Report on balance sheet prepared other than in respect of an accounting reference period for the purpose of a private company re-registering as a public company.
- 10 Report when a private company wishes to redeem or purchase its own shares out of capital.
- 11 Report when a private company wishes to provide financial assistance for the purchase of its own shares or those of its holding company.
- 12 Report when a public company wishes to allot shares otherwise than for cash.
- 13 Report when non-cash assets are transferred to a public company by certain of its members.
- 14 Report on initial accounts when a public company wishes to make a distribution.
- 15 Report on ceasing to hold office.

Example 1 – Auditors’ report on revised financial statements: revision by replacement

AUDITORS’ REPORT TO THE SHAREHOLDERS OF XYZ LIMITED

We have audited the revised financial statements on pages . . . to . . . which have been prepared under the accounting policies set out on pages . . . and The revised financial statements replace the original financial statements approved by the directors on

Respective responsibilities of directors and auditors

As described on page . . . the directors are responsible for the preparation of financial statements. [*See note below.*]

It is our responsibility to form an independent opinion, based on our audit, on these revised financial statements and to report our opinion to you. We are also required to report whether in our opinion the original financial statements failed to comply with the requirements of the Companies Act 1985 in the respects identified by the directors.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the

directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed. The audit of revised financial statements includes the performance of additional procedures to assess whether the revisions made by the directors are appropriate and have been properly made.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the revised financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the revised financial statements.

Opinions

In our opinion the revised 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 and of its profit [loss] for the year then ended and have been properly prepared in accordance with the provisions of the Companies Act 1985 as they have effect under the Companies (Revision of Defective Accounts and Report) Regulations 1990.

In our opinion the original financial statements for the year ended . . . failed to comply with the requirements of the Companies Act 1985 in the respects identified by the directors in the statement contained in note . . . to these financial statements.

Registered auditors
Date

Address

Note: If the directors' responsibilities with respect to revised financial statements are not set out in a separate statement, the auditors will include a description in their report, for example:

'Under section 245 of the Companies Act 1985 the directors have the authority to revise financial statements or a directors' report if they do not comply with the Act. The revised financial statements must be amended in accordance with the Companies (Revision of Defective Accounts and Report) Regulations 1990 and in accordance therewith do not take account of events which have taken place after the date on which the original financial statements were approved. The regulations require that the revised financial statements show a true and fair view as if they were prepared and approved by the directors as at the date of the original financial statements.'

Example 2 – Auditors' report on revised financial statements: revision by supplementary note

AUDITORS' REPORT TO THE SHAREHOLDERS OF XYZ LIMITED

We have audited the revised financial statements of XYZ Limited for the year ended The revised financial statements replace the original financial statements

approved by the directors on . . . and consist of the attached supplementary note together with the original financial statements which were circulated to members on . . .

Respective responsibilities of directors and auditors

As described on page . . . the directors are responsible for the preparation of financial statements.

It is our responsibility to form an independent opinion, based on our audit, on those revised financial statements and to report our opinion to you. We are also required to report whether in our opinion the original financial statements failed to comply with the requirements of the Companies Act 1985 in the respects identified by the directors.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed. The audit of revised financial statements includes the performance of additional procedures to assess whether the revisions made by the directors are appropriate and have been properly made.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the revised financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the revised financial statements.

Opinions

In our opinion the revised financial statements give . . . *(as for previous example)*.

In our opinion the original financial statements for the year ended . . . failed to comply with the requirements of the Companies Act 1985 in the respects identified by the directors in the supplementary note.

Registered auditors
Date

Address

Example 3 – Auditors’ report on revised directors’ report

AUDITORS’ REPORT TO SHAREHOLDERS OF XYZ LIMITED

We have considered the information given in the revised directors’ report for the year ended . . . on pages . . . to . . . The revised report replaces the original report

approved by the directors on . . . and consists of the attached supplementary note together with the original report which was circulated to members on . . . It has been prepared under the Companies (Revision of Defective Accounts and Report) Regulations 1990 and accordingly does not take account of events which have taken place after the date on which the original report was approved.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of their revised report. It is our responsibility to report to you whether the revised directors' report is consistent with the annual financial statements.

Basis of opinion

Our consideration has been directed towards matters of consistency alone and not to whether the revised report complies with the requirements of the Companies Act 1985.

Opinion

In our opinion the information given in the revised directors' report is consistent with the annual financial statements for the year ended . . . which were circulated to members on . . .

Registered auditors
Date

Address

Example 4 – Report on abbreviated accounts*

**AUDITORS' REPORT TO XYZ LIMITED PURSUANT TO
PARAGRAPH 24 OF SCHEDULE 8 TO THE COMPANIES ACT 1985**

We have examined the abbreviated accounts on pages . . . to . . . together with the financial statements of XYZ Limited prepared under section 226 of the Companies Act 1985 for the year ended 31 December 19. . .

Respective responsibilities of directors and auditors

The directors are responsible for preparing the abbreviated accounts in accordance with Schedule 8 to the Companies Act 1985. It is our responsibility to form an independent opinion as to the company's entitlement to the exemptions claimed in the directors' statement on page . . . and whether the abbreviated accounts have been properly prepared in accordance with that Schedule.

Basis of opinion

We have carried out the procedures we considered necessary to confirm, by reference to the audited financial statements, that the company is entitled to the

* **Editor's note:** Example 4 has been superseded by Bulletin 1997/1 Abbreviated accounts in Great Britain. It continues to apply to Northern Ireland, subject to Appendix 2.

exemptions and that the abbreviated accounts have been properly prepared from those financial statements. The scope of our work for the purpose of this report does not include examining or dealing with events after the date of our report on the full financial statements.

Opinion

In our opinion the company is entitled under sections [246 and 247]²/[246, 247 and 249]³ of the Companies Act 1985 to the exemptions conferred by [Section A]/[Section B] of Part III of Schedule 8 to that Act, in respect of the year ended . . . , and the abbreviated accounts on pages . . . to . . . have been properly prepared in accordance with that Schedule.

Other information

On . . . [we]/[ABC and Co] reported, as auditors of XYZ Limited, to the members on the financial statements prepared under section 226 of the Companies Act 1985 for the year ended . . . , and [our]/[their] audit report was as follows:

‘We have audited the financial statements on pages . . . to . . . which have been prepared under the historical cost convention [as modified by the revaluation of certain fixed assets] and the accounting policies set out on page . . .

Respective responsibilities of directors and auditors

As described on page . . . the company’s directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company’s circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

² For companies which are not parent companies.

³ For companies which are parent companies.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 19.. and of its profit [loss] for the year then ended and have been properly prepared in accordance with the Companies Act 1985.'

Registered auditors
Date

Address

Example 5 – Auditors' statement on a summary financial statement*

AUDITORS' STATEMENT TO THE SHAREHOLDERS OF XYZ PLC

We have examined the summary financial statement set out above/on page . . .

Respective responsibilities of directors and auditors

The summary financial statement is the responsibility of the directors. Our responsibility is to report to you our opinion on its preparation and consistency with the full financial statements and directors' report.

Basis of opinion

We conducted our work in accordance with Auditing Guideline 'The auditor's statement on the summary financial statement' adopted by the Auditing Practices Board.

Opinion

In our opinion the summary financial statement is consistent with the full financial statements and directors' report of XYZ plc for the year ended . . . and complies with the requirements of the Companies Act 1985, and regulations made thereunder, applicable to summary financial statements.

Registered auditors
Date

Address

Example 6 – Report on entitlement to exemption from preparing group financial statements

AUDITORS' REPORT TO THE DIRECTORS OF XYZ LIMITED PURSUANT TO SECTION 248(3) OF THE COMPANIES ACT 1985

We have examined the financial statements of the company and each of its subsidiaries for the year ended . . .

Basis of opinion

The scope of our work for the purpose of this report was limited to confirming that the company is entitled to exemption from preparing group financial statements.

* **Editors' note:** Example 5 is superseded by Bulletin 1996/6 The auditors' statement on the summary financial statement.

Opinion

In our opinion the company is entitled to the exemption from preparing group accounts conferred by section 248 of the Companies Act 1985.

Registered auditors
Date

Address

Note: The Act requires the report to be attached to the company's individual financial statements. This may be done by presenting the report on a separate page or by putting it on the same page as the auditors' report on the individual financial statements.

Example 7 – Statement on a company's ability to make a distribution

AUDITORS' STATEMENT TO THE SHAREHOLDERS OF XYZ LIMITED PURSUANT TO SECTION 271(4) OF THE COMPANIES ACT 1985

We have audited the financial statements of XYZ Limited for the year ended . . . in accordance with Auditing Standards issued by the Auditing Practices Board and have expressed a qualified opinion thereon in our report dated . . .

Basis of opinion

We have carried out such procedures as we considered necessary to evaluate the effect the qualified opinion for the determination of profits available for distribution.

Opinion

In our opinion the subject matter of that qualification is not material for determining, by reference to those financial statements, whether the distribution (interim dividend for the year ended . . .) of £. . . proposed by the company is permitted under section 263 of the Companies Act 1985.

Registered auditors
Date

Address

Notes:

1 *As an alternative the auditors' statement should be expressed in terms of the company's ability to make potential distributions up to a specific level. This may be particularly appropriate where the amount of the dividend has not yet been determined. The opinion paragraph will be worded as follows:*

'In our opinion the subject matter of that qualification is not material for determining, by reference to those financial statements, whether a distribution of not more than £. . . by the company would be permitted under section 263 of the Companies Act 1985'.

2 *This example assumes that a separate report is given regarding the company's ability to make a distribution. This matter is sometimes referred to in the statutory audit report by adding a separate paragraph. That paragraph might be worded as follows:*

'In our opinion the subject matter of the foregoing qualification is not material for determining whether the distribution of £. . . proposed by the company is permitted under section 263 of the Act.'

- 3 *The reference to section 263 above should be extended to cover also section 264 in the case of a public company.*

Example 8 – Statement when a private company wishes to re-register as a public company

AUDITORS' STATEMENT TO XYZ LIMITED FOR THE PURPOSE OF SECTION 43(3)(b) OF THE COMPANIES ACT 1985

We have examined the balance sheet of XYZ Limited as at . . . which formed part of the financial statements for the year then ended audited by us/ABC and Co.

Basis of opinion

The scope of our work for the purpose of this statement was limited to an examination of the relationship between the company's net assets and its called-up share capital and undistributable reserves as stated in the audited balance sheet in connection with the company's proposed re-registration as a public company.

Opinion

In our opinion the balance sheet at . . . shows that the amount of the company's net assets was not less than the aggregate of its called-up share capital and undistributable reserves.

We audited the financial statements of XYZ Limited for the year ended . . . in accordance with Auditing Standards issued by the Auditing Practices Board and expressed a qualified opinion thereon. The matter giving rise to our qualification is not material for determining by reference to the balance sheet at . . . whether at that date the net assets of the company were not less than the aggregate of its called-up share capital and undistributable reserves.⁴

Registered auditors
Date

Address

Example 9 – Report on balance sheet prepared other than in respect of an accounting reference period for the purpose of a private company re-registering as a public company

AUDITORS' REPORT TO XYZ LIMITED

We have audited the balance sheet and related notes on pages . . . to . . .

Respective responsibilities of directors and auditors

As described on page . . . the company's directors are responsible for the preparation of the balance sheet. It is our responsibility to form an independent opinion, based on our audit and to report our opinion to you.

⁴ *For inclusion where necessary.*

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures. It also includes an assessment of the significant estimates and judgements made by the directors, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the balance sheet is free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the balance sheet.

Opinion

In our opinion the balance sheet gives a true and fair view of the state of the company's affairs at . . . and has been properly prepared in accordance with the provisions of the Companies Act 1985, which would have applied had the balance sheet been prepared for a financial year of the company.

Registered auditors
Date

Address

Example 10 – Report when a private company wishes to redeem or purchase its own shares out of capital

AUDITORS' REPORT TO THE DIRECTORS OF XYZ LIMITED PURSUANT TO SECTION 173(5) OF THE COMPANIES ACT 1985

We have examined the attached statutory declaration of the directors dated . . . in connection with the company's proposed purchase of . . . (number) ordinary shares by a payment out of capital and reserves.

Basis of opinion

We have enquired into the state of the company's affairs in order to review the bases for the statutory declaration.

Opinion

In our opinion the amount of £. . . specified in the statutory declaration of the directors as the permissible capital payment for the shares to be purchased is properly determined in accordance with sections 171 and 172 of the Companies Act 1985.

We are not aware of anything to indicate that the opinion expressed by the directors in their declaration as to any of the matters mentioned in section 173(3) of the Companies Act 1985 is unreasonable in all the circumstances.

Registered auditors
Date

Address

Example 11 – Report when a private company wishes to provide financial assistance for the purchase of its own shares or those of its holding company

AUDITORS' REPORT TO THE DIRECTORS OF XYZ LIMITED PURSUANT TO SECTION 156(4) OF THE COMPANIES ACT 1985

We have examined the attached statutory declaration of the directors dated . . . in connection with the proposal that the company should give financial assistance for the purchase of . . . (number) of the company's ordinary shares.

Basis of opinion

We have enquired into the state of the company's affairs in order to review the bases for the statutory declaration.

Opinion

We are not aware of anything to indicate that the opinion expressed by the directors in their declaration as to any of the matters mentioned in section 156(2) of the Companies Act 1985 is unreasonable in all the circumstances.

Registered auditors
Date

Address

Example 12 – Report when a public company wishes to allot shares otherwise than for cash

INDEPENDENT ACCOUNTANTS' REPORT TO XYZ PLC FOR THE PURPOSES OF SECTION 103(1) OF THE COMPANIES ACT 1985

We report on the value of the consideration for the allotment to . . . (name of allottee) of . . . (number) shares, having a nominal value of £1 each, to be issued at a premium of . . . pence per share. The shares and share premium are to be treated as fully paid up.

The consideration for the allotment to . . . (name of allottee) is the freehold building situated at . . . (address) and . . . (number) shares, having a nominal value of £1 each, in LMN PLC.

Basis of opinion

The freehold building was valued on the basis of its open market value by . . . (name of specialist), a Fellow of the Royal Institution of Chartered Surveyors, on . . . (date) and in our opinion it is reasonable to accept such a valuation.

The shares in LMN PLC were valued by us on . . . (date) on the basis of the price shown in the Stock Exchange Daily Official List at . . . (date).

Opinion

In our opinion, the methods of valuation of the freehold building and the shares in LMN PLC were reasonable in all the circumstances. There appears to have been no material change in the value of either part of the consideration since the valuations were made. On the basis of the valuations, in our opinion, the value of the total consideration is not less than £. . . (being the total amount to be treated as paid up on the shares allotted together with the share premium).

Registered auditors

Address

Date

Example 13 – Report when non-cash assets are transferred to a public company by certain of its members

INDEPENDENT ACCOUNTANTS' REPORT TO XYZ PLC FOR THE PURPOSES OF SECTION 104(4) OF THE COMPANIES ACT 1985

We report on the transfer of non-cash assets to XYZ PLC ('the Company') by subscribers to the Company's memorandum of association.

The consideration to be received by the Company is a freehold building situated at . . . (address).

The consideration to be given by the Company is . . . (number) shares, having a nominal value of £1 each, in LMN PLC.

Basis of opinion

The freehold building was valued on the basis of its open market value by . . . (name of specialist), a Fellow of the Royal Institution of Chartered Surveyors, on . . . (date) and in our opinion it is reasonable to accept such a valuation.

The shares in LMN PLC were valued by us on . . . (date) on the basis of the price shown in the Stock Exchange Daily Official List at . . . (date).

Opinion

In our opinion, the methods of valuation were reasonable in all the circumstances. There appears to us to have been no material change in the value of the consideration received and given since the date(s) at which the valuations were made.

On the basis of the valuations, in our opinion, the value of the consideration to be received by the Company is not less than the consideration to be given by the Company.

Registered auditors

Address

Date

Example 14 – Report on initial accounts when a public company wishes to make a distribution

AUDITORS' REPORT TO THE DIRECTORS OF XYZ PLC UNDER SECTION 273(4) OF THE COMPANIES ACT 1985

We have audited the initial accounts of XYZ PLC on pages . . . to . . . which have been prepared under the historical cost convention [as modified by the revaluation of certain fixed assets] and the accounting policies set out on page . . .

Respective responsibilities of directors and auditors

As described on page . . . you are responsible for the preparation of the initial accounts. It is our responsibility to form an independent opinion, based on our audit, of those initial accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the initial accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the initial accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the initial accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the initial accounts.

Opinion

In our opinion the initial accounts for the period from . . . to . . . have been properly prepared within the meaning of section 273 of the Companies Act 1985.

Registered auditors
Date

Address

Example 15 – Report on ceasing to hold office⁵

STATEMENT TO THE DIRECTORS OF XYZ LIMITED ON CEASING TO HOLD OFFICE AS AUDITORS

In accordance with section 394 of the Companies Act 1985, we confirm that there are no circumstances connected with our ceasing to hold office that we consider should be brought to the attention of the company's members or creditors.

Registered auditors
Date

Address

⁵ The report is normally made in the form of a letter signed in the firm's name.

Appendix 2 – Special considerations relating to Northern Ireland

The provisions of the Companies (Northern Ireland) Order 1986, as amended in 1990, are analogous to those of the Companies Act 1985. The guidance given in this Practice Note in respect of companies incorporated in Great Britain is, therefore, wholly applicable in relation to companies incorporated in Northern Ireland, subject to substitution of the legislative references given below.

	Companies Act 1985 (as amended in 1989)	Companies (Northern Ireland) Order 1986 (as amended in 1990)
Annual financial statements	s226 s227 s230 s230(3) s233 s235 s235(2) s235(3) s236 s237(2) s237(3) s237(4) s246 s247 s256 s262(1)	Art. 234 Art. 235 Art. 238 Art. 238(3) Art. 241 Art. 243 Art. 243(2) Art. 243(3) Art. 244 Art. 245(2) Art. 245(3) Art. 245(4) Art. 254 Art. 255 Art. 264 Art. 270(1)
Revised annual financial statements	s245 s245A	Art. 253 Art. 253A
Exemptions for small and medium-sized groups	s248	Art. 256
Distributions	s271(3) s271(4)	Art. 279(3) Art. 279(4)
Summary financial statements	s238(1) s251	Art. 246(1) Art. 259
Re-registration of a private company as a public company	s43(3)(b)	Art. 53(3)(b)

Redemption or purchase by a private company of its own shares out of capital	s171 s172 s173(3) s173(5)	Art. 181 Art. 182 Art. 183(3) Art. 183 (5)
Financial assistance for acquisition of a private company's own shares	s153 s156(4)	Art. 163 Art. 166(4)
Allotment of shares by a public company otherwise than for cash	s103(1)	Art. 113(1)
Transfer of non-cash assets to a public company by a member of the company	s104(4)(b)	Art. 114(4)(b)
Distribution by public companies: the use of initial accounts	s226 s273(2) s273(4)	Art. 234 Art. 281(2) Art. 281(4)
Ceasing to hold office as auditor	s394	Art. 401A

The examples of audit reports given in Appendix 1 should be amended as follows for applicability to Northern Ireland companies:

Examples 1 and 2

The description of respective responsibilities should refer to 'whether in our opinion the original financial statements failed to comply with the requirements of the Companies (Northern Ireland) Order 1986 in the respects identified by the directors'.

The first paragraph of the opinion should refer to the revised financial statements as having been 'properly prepared in accordance with the provisions of the Companies (Northern Ireland) Order 1986 as they have effect under the Companies (Revision of Defective Accounts and Report) (Northern Ireland) Order 1991'.

The second paragraph of the opinion should refer to a failure 'to comply with the requirements of the Companies (Northern Ireland) Order 1986 in the respects identified by the directors in the statement contained in note . . . to these financial statements'.

Example 3

The introductory paragraph should refer to the revised report being 'prepared under the Companies (Revision of Defective Accounts and Report) (Northern Ireland) Order 1991'.

The basis of opinion paragraph should refer to the requirements of the Companies (Northern Ireland) Order 1986.

Example 4

The heading to the report should indicate that it is made ‘pursuant to Paragraph 10 of Schedule 8 to the Companies (Northern Ireland) Order 1986’.

The introductory paragraph should refer to the financial statements ‘prepared under Article 234 of the Companies (Northern Ireland) Order 1986’.

The respective responsibilities paragraph should refer to preparing the abbreviated accounts ‘in accordance with Schedule 8 to the Companies (Northern Ireland) Order 1986’.

The opinion paragraph should refer to the entitlement of the company ‘under Articles 254 and 255 of the Companies (Northern Ireland) Order 1986 to the exemptions conferred by Part I/II* of Schedule 8 to that Order’ and should refer to the modified accounts themselves as having been ‘properly prepared in accordance with Schedule 8 to that Order’.

The other information paragraph of the opinion should refer to the report to the members on the company’s financial statements as being ‘prepared under Article 234 of the Companies (Northern Ireland) Order 1986’. Appropriate adjustments would also be made to the quotation from that report.

Example 5

The opinion paragraph should refer to the summary financial statement as complying ‘with the requirements of Article 259 of the Companies (Northern Ireland) Order 1986 and the regulations made thereunder’.

Example 6

The heading should refer to the report being made ‘pursuant to Article 256(3) of the Companies (Northern Ireland) Order 1986’.

The opinion paragraph should refer to the exemption being conferred by Article 256 of the Companies (Northern Ireland) Order 1986.

Example 7

The heading to the report should indicate that it is made ‘pursuant to Article 279(4) of the Companies (Northern Ireland) Order 1986’.

The opinion paragraph should refer to the distribution as being ‘permitted under Article 278 of the Companies (Northern Ireland) Order 1986’.

Example 8

The heading to the report should indicate that it is made ‘pursuant to Article 53(3)(b) of the Companies (Northern Ireland) Order 1986’.

Example 9

The opinion paragraph should refer to the balance sheet as being ‘properly prepared in accordance with the provisions of the Companies (Northern Ireland) Order 1986’.

Example 10

The heading to the report should indicate that it is made ‘pursuant to Article 183(5) of the Companies (Northern Ireland) Order 1986’.

The first paragraph of the opinion should refer to the permissible capital payment as being ‘properly determined in accordance with Articles 181 and 182 of the Companies (Northern Ireland) Order 1986’.

The second paragraph of the opinion should refer to ‘matters mentioned in Article 183(3) of the Companies (Northern Ireland) Order 1986’.

Example 11

The heading to the report should indicate that it is made ‘pursuant to Article 166(4) of the Companies (Northern Ireland) Order 1986’.

The opinion paragraph should refer to ‘matters mentioned in Article 166(2) of the Companies (Northern Ireland) Order 1986’.

Example 12

The heading to the report should indicate that it is made ‘for the purposes of Article 113(1) of the Companies (Northern Ireland) Order 1986’.

Example 13

The heading to the report should indicate that it is made ‘for the purposes of Article 114(4)(b) of the Companies (Northern Ireland) Order 1986’.

Example 14

The heading to the report should indicate that it is made ‘pursuant to Article 281(4) of the Companies (Northern Ireland) Order 1986’.

The opinion paragraph should refer to the initial accounts as having been ‘properly prepared within the meaning of Article 281 of the Companies (Northern Ireland) Order 1986’.

Example 15

The report should refer to ‘Article 401A of the Companies (Northern Ireland) Order 1986’.

NOTICE TO READERS

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