
SCR Reporting

Bulletin 2020 / 3

FOR SUBSCRIBERS TO SCR CHARITY REPORTING

This Bulletin accompanies the issue of the Independent Examination Working Papers, the final section of the SCR Charity Reporting Manual.

The Manual now comprises 5 sections:

- (a) The **SCR Charity Manual** which outlines the legal, regulatory, accounting and scrutiny requirements relating to charity accounts
- (b) A **Compendium of audit and independent examination reports**. This will be updated by the end of the year for the revised going concern and audit responsibilities sections of audit reports applicable to periods commencing on or after 15 December 2019 (see Bulletin 2020 / 2).
- (c) **Audit Working Papers** – available in Word and PDF format (see below for note of changes).
- (d) **Independent Examination Working Papers** – also available in Word and PDF.
- (e) **Accounts disclosure checklists** which can be used to supplement the procedures in the audit and independent examination working papers and filed in Section D.

We have currently decided not to produce illustrative charity accounts as there are many good examples on the websites of the various charity regulators and the variety of charity types and activities makes it difficult to publish an appropriate illustrative set.

Revisions to SCR Charity Working Papers

We have made some minor amendments to the working papers published recently to correct some typographical errors and improvements identified in finalising the Independent Examination Working Papers.

In particular, we changed section 4 of the Audit Conclusions Programme and the AML and regulatory reporting checklist (A1.2) (now named Regulatory Reporting Checklist) to change the focus to reporting to the charity regulator and to include the specific matters of material significance identified by the three regulators.

We have also included the New Client Checklist (P2) and AML risk assessment (P3) and customer due diligence forms amended to apply to charity engagements.

There will be some revisions to the standard audit documentation and approach to be launched within the next two weeks and they will have a consequent revision to the charity audit working papers.

Coronavirus Covid-19

We are still able to answer technical queries and arrange hot and cold reviews by post / courier, although we are unable to visit firms in the foreseeable future unless in exceptional circumstances. We can, of course have video conference calls if there are urgent issues such as a pending regulatory visit.

We would like to wish all our subscribers a safe and healthy future and hopefully a quick return to business as usual.

Bill Telford

Editor

Feedback

We are always keen to hear feedback from our users. Please feel free to contact Bill or Mark with any suggestions, comments or ideas for new products or services. Bill is the principal contact for technical issues, Mark for administration, website and related issues. Bill's e-mail address is bill@scrreporting.co.uk while Mark can be contacted at info@scrreporting.co.uk

APPENDIX 1: AUDIT REPORT FOR A SMALL COMPANY PREPARING FINANCIAL STATEMENTS UNDER THE SMALL COMPANIES REGIME FOR PERIODS COMMENCING ON OR AFTER 15 DECEMBER 2019

In the example below content which is no longer required for periods commencing on or after 15 December 2019 is shown ~~like this~~. New material is shown *like this*. Identical changes are required for other audit reports e.g. for non-small companies, groups, charities etc. SCR publications will be updated with revised versions in due course.

Independent auditor's report to the members of [XYZ Limited]

Opinion

We have audited the financial statements of [XYZ Limited] (the 'company') for the year ended [date] which comprise [*specify the titles of the primary statements*] and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

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

Basis for opinion

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

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's

ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies' regime and take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement [set out on page ...], the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

[Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud.]

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [[website link](#)]. This description forms part of our auditor's report¹.

Use of our report

¹ There are alternative approaches to the disclosure of auditor's responsibilities, but we consider cross referencing to FRC website the simplest.

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

[Signature]

John Smith (Senior Statutory Auditor)

For and on behalf of ABC LLP, Statutory Auditor

[Address]

[Date]

APPENDIX 2: APPLICATION OF NEW REPORTING ON GOING CONCERN

The use of the going concern basis is not appropriate

Illustration 1

The client is a small company with one shareholder director and three staff. The director is 69 and is in the process of closing down his business. He is gradually transferring clients to other firms as his staff have no interest in taking over the company. He intends to cease trading and retire abroad on his 70th birthday 26th April.

The accounts have not been prepared on the going concern basis and the basis appropriately disclosed. The auditor agrees with this approach.

Drafting the audit report

The opinion

Because there is an intention to cease trading the company is not a going concern and under FRS 102 the accounts must not be prepared on the going concern basis.

Therefore, the auditor can give an unqualified opinion on truth and fairness, proper preparation under GAAP and preparation under company law, provided, of course that the basis of preparation has been disclosed appropriately.

However, the auditor may wish to include an emphasis of matter paragraph referring to the fact that the financial statements have not been prepared on the normal basis i.e. going concern.

Emphasis of matter – [basis of preparation / financial statements prepared on a basis other than going concern]

We draw attention to note X to the financial statements which explains that the director intends to liquidate the company and therefore does not consider it to be appropriate to adopt the going concern basis of accounting in preparing the financial statements. Accordingly, the financial statements have been prepared on a basis other than going concern as described in note X. Our opinion is not modified in respect of this matter.

This paragraph would be included after the basis of opinion paragraph.

Basis of opinion

Because the auditor has been able to do all the work required there is no change to the basis of opinion which must follow the opinion.

Going concern

Periods commencing before 15 December 2019

ICAEW guidance on drafting audit reports recommended that the standard going concern paragraphs should be removed where the emphasis of matter paragraph was being used

Periods commencing on or after 15 December 2019

An emphasis of matter paragraph could be included on a similar basis and again immediately after the basis of opinion paragraph. However, it would not be appropriate to delete the going concern section, not least because the auditor has concluded that there are no material uncertainties.

The going concern section could be amended as follows:

In auditing the financial statements, we have concluded that the directors' use of an alternative basis to the going concern basis of accounting in the preparation of the financial statements as described in the basis of preparation of accounts note is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other sections of the audit report

Provided that any necessary disclosures have been included in the directors' report there are no changes required to the other paragraphs in the standard report.

Some uncertainty but the uncertainty is not material

Illustration 2

The company is a medium sized company and has been incurring losses due to management charges from another business in which the majority shareholder is involved. There are large creditors, that individual and other business. The principal shareholder / director is personally wealthy and is prepared to confirm that they will not withdraw their loan account until all unrelated creditors have been paid.

Drafting the audit report

If the auditor concludes that there is no material uncertainty because of the ability of the shareholder / director to support the company an unqualified opinion can be given and there are no amendments required to the standard report.

There is no requirement to include a note explaining the uncertainty and even if there is some disclosure, there is no requirement for the auditor to refer to it in their report.

Material uncertainty appropriately disclosed

Illustration 3

The client is a medium-sized company which has been incurring losses due to adverse trading conditions. The directors intend to support the company going forward and have provided budgets and forecasts which indicate that the company should be able to survive but the auditor concludes that it may be unable to do so, not least because of the uncertain future impact on the business caused by Covid-19.

The auditor discusses the uncertainty with the directors who agree that there is a material uncertainty and also agree to the inclusion of the relevant disclosures in the strategic report and notes to the financial statements.

Drafting the audit report

The opinion

As in illustration 1 above the auditor concludes that the financial statements give a true and fair view, have been properly prepared under GAAP and company law and is therefore able to give an unqualified opinion.

However, given the significance of the material uncertainty the auditor concludes that an additional paragraph is required on the following lines.

Material uncertainty related to going concern

We draw attention to note X in the financial statements which indicates that the company incurred a net loss of £ZZ during the year ended 30 June 2020 and, as of that date, the company's current liabilities exceeded its total assets by £YY. As stated in note x, these events or conditions, along with other matters set forth in note X, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

This wording is based on the ICAEW Guide to drafting audit report. Note the use of the expression 'material uncertainty relating to going concern' and the fact that the expression emphasis of matter is not used.

Basis of opinion

As the auditor has obtained sufficient appropriate audit evidence the standard wording can be used.

Going concern

Periods commencing before 15 December 2019

ICAEW Guide to drafting audit reports recommended that the standard going concern paragraphs should be removed where the material uncertainty paragraph was being used

Periods commencing on or after 15 December 2019

It would not be appropriate to delete the going concern section, not least because the auditor has concluded that there are no material uncertainties.

The going concern section could be amended as follows:

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

As described in the material uncertainty relating to going concern paragraph, based on the work we have performed, we have identified material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other sections of the audit report

Provided that any necessary disclosures have been included in the strategic and directors' reports there are no changes required to the other paragraphs in the standard report.

Material uncertainty not appropriately disclosed

Illustration 4

The client is a medium-sized company which has been incurring losses due to adverse trading conditions. The directors intend to support the company going forward and have provided budgets and forecasts which indicate that the company should be able to survive but the auditor concludes that it may be unable to do so, not least because of the uncertain future impact on the business caused by Covid-19.

The auditor discusses the uncertainty with the directors who do not agree that there is a material uncertainty and refuse to include the relevant disclosures in the strategic report and notes to the financial statements.

Drafting the audit report

Opinion and basis of opinion

Because of the lack of disclosure, the audit opinion in relation to truth and fairness etc. is modified on the grounds of disagreement, if the matter is material but not pervasive. If the matter is pervasive an adverse opinion is given.

Since the directors have no intention to cease trading and the uncertainties are not so significant that they indicate a necessity to do so, it is probable that the auditor concludes that the material uncertainties are not pervasive and that it is appropriate to prepare the accounts on a going concern basis.

The basis of opinion paragraph is amended to Basis for qualified opinion paragraph and the qualification cross refers to the Basis for qualified opinion paragraph, as illustrated below.

Qualified opinion

In our opinion, except for the effects of the matter described in the basis for qualified opinion section, the financial statements:

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

Basis for qualified opinion

The notes to the financial statements do not include the disclosures relating to material uncertainties related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern². We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard [, and the provisions available for small entities, in the circumstances set out in note [X] to the financial statements], and we have fulfilled our other ethical

² ISA 705 requires the auditor to include omitted disclosures unless prohibited by law or regulation, provided it is practicable to do so and provided auditor has obtained sufficient appropriate audit evidence about the omitted information.

responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Going concern

Periods commencing before 15 December 2019

ICAEW Guide to drafting audit reports recommended that the standard going concern paragraphs should be removed where audit report was being qualified.

Periods commencing on or after 15 December 2019

It would not be appropriate to delete the going concern section, not least because the auditor has concluded that it is appropriate to use the going concern basis and has also concluded that there are material uncertainties.

The going concern section could be amended as follows:

Going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

As indicated in the basis for qualified opinion paragraph, based on the work we have performed, we have identified material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Remaining sections of the audit report

Since the directors have refused to include appropriate disclosures in the strategic or directors reports as well as in the notes to the financial statements the following modifications will be required to the other sections of the report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

As described in the basis for qualified opinion section of our report, our report is qualified or non-disclosure of material uncertainties relating to events or conditions that may cast doubt on the company's ability to continue as a going concern. The information in the strategic report also omits this information and accordingly we have concluded that the other information is materially misstated.

Qualified opinions on other matters prescribed by the Companies Act 2006

Except for the possible effects of the matter described in the basis for qualified opinion section of our report, in our opinion, based on the work undertaken in the course of the audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

Except for the matter described in the basis for qualified opinion section of our report, In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

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

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

Limitation on audit scope

Illustration 5

The company has been making losses and the directors has provided no budgets, forecast or other reliable information to support their assertion that the company is a going concern.

Drafting the audit report

In this situation the auditor is unable to assess whether the accounts should be prepared on the going concern basis or to assess whether there are material uncertainties and is required to issue a modified audit report. The auditor needs to determine whether the limitation is pervasive and requires a disclaimer or whether an except for adjustments that might be necessary will suffice.

With respect to the going concern paragraph the auditor also needs to conclude on each of the two elements, the use of the going concern basis and the existence of material uncertainties.