

8 ICAEW GUIDANCE ON AUDIT REPORTS

(LECTURE A612 – 10.38 MINUTES)

As noted in previous update courses, the auditor's report per ISA (UK) 700 (Revised June 2016) *Forming an Opinion and Reporting on Financial Statements* is restructured. For example, no longer is the opinion paragraph situated at the end of the report, it is now situated at the top of the report as this was judged to be in the users' understanding of the auditor's report. Critics of the previous versions of the reports cited the unhelpful language used and the fact that they had to read all of the report before getting to the overall opinion of whether the financial statements give a true and fair view or otherwise.

The ICAEW has issued [guidance](#) on the new audit reports. The Helpsheets have been based on the FRC's Compendium of illustrative auditor's reports and confirm that as long as the auditor's report complies with the applicable requirements (i.e. they contain the required elements), audit firms may prefer alternative ways of presenting the required information. In practice, this is quite rare for smaller firms.

8.1 Use of Bannerman

The use of a Bannerman paragraph has proven to be crucial for audit firms (as noted in the case of *Barclays Bank v Grant Thornton* where the judge ruled that Grant Thornton had acknowledged it owed no duty of care to Barclays Bank in respect of their mutual client, Von Essen Hotel Group as it had included the Bannerman wording in its auditor's report).

The positioning of the Bannerman paragraph has caused an element of uncertainty as to whereabouts in the auditor's report it should go following the restructuring of the auditor's report.

The guidance in Audit 1/03 states that the Bannerman paragraph is included at the beginning of the Companies Act auditor's report. ISA (UK) 700 (Revised June 2016) now requires the auditor's report to start with the 'Opinion' paragraph, immediately followed by the 'Basis for Opinion' section.

The wording (for a company) in respect of the Bannerman paragraph is as follows:

'This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.'

Some publications and software locate the Bannerman paragraph within the wording which describes the responsibilities of the auditors. However, there is a concern about positioning the Bannerman paragraph here.

In *Barclays v Grant Thornton*, the important point was that the Bannerman paragraph was read because it was placed at the beginning of the auditor's report. It may potentially go unnoticed if it is positioned towards the end of the auditor's report in the restructured version.

It may be advisable to position the Bannerman paragraph immediately after the Basis for Opinion paragraph, but it remains for each audit firm to decide on its own approach to the positioning of the paragraph.

8.1.1 ACCA regulated firms

Firms regulated by ACCA should note that ACCA does not encourage the use of Bannerman paragraphs. Technical Factsheet 84 *The Use of Disclaimers in Audit Reports* outlines the reasons why ACCA take this view, which is primarily because they feel the use of disclaimers devalues the audit report. This position remains unchanged following the *Barclays Bank PLC v Grant Thornton* case.

ACCA does accept that member firms may wish to make specific disclaimers of responsibility in certain defined circumstances, but does not encourage such disclaimers on a regular basis. ACCA also confirms that if an audit is carried out properly, such disclaimers would be unnecessary to protect the auditor's interest.

ACCA's advice to member firms is for auditors to carry out their work in accordance with the ISAs (UK) and hence there should be no need to subject it to a disclaimer.