A49 Revised financial statements

1 Introduction

This chapter retains references to the 1985 Act because financial statements prepared under that Act are revised under that Act even if this occurs several years later. This is explained more fully below.

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* discusses the accounting that should be adopted when an error is discovered (see **chapter A5**), but does not give any guidance on the revision of financial statements.

Revision of the annual financial statements, the directors' report or the directors' remuneration report and any associated summary or abbreviated financial statements may be appropriate when information becomes available which suggests that the original financial statements or report did not comply with the requirements of the Companies Act or, where applicable, of Article 4 of the IAS Regulation. The following paragraphs provide guidance on the revision of 'defective' financial statements under s454 to 457 of the 2006 Act (previously s245 to 245C of the 1985 Act). A special auditor's report is required in such cases.

Annual financial statements, the directors' report and the directors' remuneration report are referred to collectively as 'financial statements or reports' in this chapter.

The Companies Act 1989 introduced procedures for:

a. voluntary revision of defective financial statements by the directors; and

b. mandatory revisions of defective financial statements by court order.

These provisions are now contained in s454 to 457 of the 2006 Act (previously s245 to 245C of the 1985 Act). The basic provisions are supplemented, in the case of voluntary revision, by SI 2008/373 The Companies (Revision of Defective Accounts and Report) Regulations 2008 ('the 2008 Defective Accounts Regulations') (previously SI 1990/2570 The Companies (Revision of Defective Accounts and Report) Regulations 1990 ('the 1990 Defective Accounts Regulations')). References below to 'the Defective Accounts Regulations' apply to both the 2008 Regulations and the 1990 Regulations.

In common with the other financial reporting requirements of the 2006 Act, the requirements for the revision of defective accounts apply to financial years beginning on or after 6 April 2008. Consequently, the revision will be made under the Act which applied to the original accounts, even if it is made several years later. For example if revised accounts for the year ended 31 December 2008 are issued in June 2013, they will be prepared in accordance with the applicable provisions of the 1985 Act and the revision will be made in accordance with the 1990 Defective Accounts Regulations. The main practical effect of this is that the statement about the revision (see **examples 4.1** and **4.2** below) will continue to refer to the 1985 Act and the 1990 Defective Accounts Regulations when the period in question began before 6 April 2008.

There is no authoritative financial reporting guidance on the preparation of revised financial statements. Bulletin 2008/5 *Auditor's Reports on Revised Accounts and Reports in the United Kingdom* issued by the APB (the Audit and Assurance Council's predecessor) provides guidance for auditors which may also be helpful for preparers in the absence of more specific guidance.

International Standard on Auditing (UK and Ireland) 560 *Subsequent events* also refers to revised financial statements. It notes that when, after the financial statements have been issued, the auditors become aware of a fact which existed at the date of the auditor's report and which, if known at that date, may have caused the auditors to modify their report, the auditors should consider whether the financial statements need revision, should discuss the matter with management, and take the action appropriate in the circumstances.

2 Approaches other than voluntary revision

Before explaining the detailed requirements relating to voluntary revision in accordance with s454 of the 2006 Act (previously s245 of the 1985 Act), it is worth pausing to consider the other options which may be available. Not every error which comes to light in previously approved financial statements will result in the need to prepare formal revised financial statements.

It is for the directors to decide in each case on the appropriate action to take although they will wish to consider the views of the auditors. If the directors decide not to issue revised financial statements in circumstances where the auditors believe that this would be appropriate, the auditors may take appropriate action to seek to prevent reliance on their report. APB Bulletin 2008/5 notes that the auditors may wish to take legal advice. Possible courses of action include resignation and making a statement at the annual general meeting.

Options other than the preparation of revised financial statements may include:

a. doing nothing, for example in the case of a minor typographical error;

b. issuing an 'erratum slip' to explain the error;

c. destroying all copies of the original financial statements where it is clear that no copies have been distributed; and

d. dealing with the matter by way of explanation or restatement in the financial statements for the following year. This may be particularly relevant where the error comes to light during the preparation of those subsequent financial statements.

These options are discussed below.

In the case of minor errors and inconsistencies, it may be acceptable to do nothing because there is little danger of anyone being misled and the cost of preparing revised financial statements would not be justified. If the error comes to light after the financial statements have been printed but before they have been distributed, it may be possible to make the correction by means of an 'erratum slip'. However, it is unlikely that the Registrar of Companies would agree to file such a correction and the only way to amend the financial statements on the public record after they have been filed is through the formal procedure under s454 of the 2006 Act (previously s245 of the 1985 Act).

In some cases an error may come to light before the financial statements have been filed at Companies House and before any copies have been distributed to other interested parties. For example, in a group situation, the financial statements of all of the subsidiaries may be approved on the same day as the group financial statements but these may then 'sit in a drawer' because they are not due to be filed for many months. In such circumstances, it would appear to be possible for the financial statements to be destroyed and for a new set of financial statements to be prepared and approved by the directors and auditors. However, this approach can only be adopted when it is certain that no other copies have been distributed.

The significance of an error may diminish with the passage of time. If the financial statements for the succeeding year are about to be issued, it will often be preferable to deal with the error in those financial statements rather than through the preparation of revised financial statements for the earlier period. In accordance with IAS 8, a material error will be dealt with by means of a prior year adjustment.

In some cases the directors will have no choice but to prepare revised financial statements. For example, BIS or the Conduct Committee may request a company to prepare revised financial statements. They cannot force the directors to prepare such revised financial statements but the threat of invoking the procedure for mandatory revision by court order will usually be sufficient to persuade the directors to prepare revised financial statements. One feature of revision by court order is that the directors who were party to the approval of the defective financial statements may be required to pay the costs of the application to the court and any reasonable expenses incurred by the company in connection with or in consequence of the preparation of the revised financial statements.

In other cases the directors will decide to prepare revised financial statements because they do not believe any of the above options to be appropriate in the particular circumstances. However, as explained below, this procedure cannot be used to correct immaterial errors that would not have amounted to non-compliance with the Act or the IAS Regulation. The following paragraphs deal with the procedures for voluntary revision under s454 of the 2006 Act (previously s245 of the 1985 Act). However, these procedures would also be generally relevant in the rare case of a mandatory revision by court order, subject to any specific directions by the court.

3 Voluntary revision under section 454 of the 2006 Act (previously section 245 of the 1985 Act)

Section 454(1) of the 2006 Act (previously s245(1) of the 1985 Act) provides that the directors may prepare revised financial statements or a revised report if it appears to them that the company's annual accounts, the directors' remuneration report or the directors' report, or a summary financial statement of the company did not comply with the requirements of the Act (or, where applicable, of Article 4 of the IAS Regulation). Section 454(2) of the 2006 Act (previously s245(2) of the 1985 Act) then provides that where copies of those financial statements or that report have been laid before the company in general meeting or delivered to the registrar, the revisions shall be confined to “the correction of those respects in which the previous accounts or report did not comply with the requirements of this Act (or, where applicable, of Article 4 of the IAS Regulation) and the making of any necessary consequential alterations”. The Act therefore permits some flexibility to make additional changes but only where the financial statements or report have been neither laid before the company in general meeting nor delivered to the registrar. This flexibility will therefore only rarely be available in practice.

It is only possible to revise a company's annual accounts, directors' report, directors' remuneration report and any summary financial statement. It is not possible to use this procedure to revise an auditor's report. Neither is it possible to revise other parts of an annual report such as a chairman's statement unless they clearly form part of the directors' report.

However, no revision is possible at all unless the original financial statements or report did not comply with the requirements of the Act or the IAS Regulation. It is not therefore possible to revise financial statements or reports merely to 'improve' them, for example applying an alternative accounting policy or adopting a clearer presentation where the original one complied with the requirements of the Act (including the requirement to give a true and fair view for the financial statements). This is confirmed by Bulletin 2008/5 issued by the APB (the Audit and Assurance Council's predecessor) which notes that revisions must be confined to the correction of those respects in which the previous accounts or report did not comply with the requirements of the Act (or, where applicable, of Article 4 of the IAS Regulation), and the making of any necessary consequential alterations. This view is also reflected in the form of the auditor's report on the revised financial statements under which the auditors state that in their opinion “the original financial statements failed to comply with the requirements of the Act in the respects identified by the directors”. Auditors are therefore unlikely to be prepared to issue an unqualified report on the revised financial statements if, for example, they regard the errors as trivial. It may be useful in such situations to consider whether it is likely that the auditors would have been prepared to issue an unqualified report on the original financial statements if they had been aware of the error at that time. But even where it is thought that they would not have done so, this does not necessarily mean that the preparation of revised financial statements is the most appropriate action.

In determining whether the original financial statements or report did comply with the requirements of the Acts, regulation 3 of the Defective Accounts Regulations limits the use of hindsight by providing that financial statements or report should only reflect events which took place, or knowledge that was available, before the original financial statements or report were approved, and not at some subsequent date. Moreover, the fact that certain estimates can be seen at a later date to have been inaccurate does not mean that the original financial statements did not comply with the Act unless it can be demonstrated that the facts on which the initial estimates were reached were incomplete or incorrect at the time.

One issue which arises from time to time is whether a simple clerical error could amount to non-compliance with the Act. It is unlikely that a simple typographical error in narrative would meet this test unless the effect was to change the meaning in a material way (e.g. the omission of 'not' from a sentence). Similarly, an immaterial error in a disclosed amount (e.g. a transposition error whereby the disclosure of operating lease rentals was shown as £55,600 instead of £56,500) would not usually amount to non-compliance with the Act. However, it would usually be thought acceptable to issue revised financial statements where there are 'visible' errors, for example, where a note does not agree with the amount shown in the primary statement or totals have been incorrectly calculated.

4 Form of revised financial statements or report

When a revision of financial statements or a directors' report or directors' remuneration report is undertaken under s454 of the 2006 Act (previously s245 of the 1985 Act) (i.e. because the original financial statements or report did not comply with the Act or the IAS Regulation) it can be effected by either:

a. replacement of the original with a corrected set of financial statements or report; or

b. the issue of a supplementary note.

The directors are free to choose which method to use. In both instances, the financial statements or report should be prepared “as if ... prepared and approved by the directors as at the date of the original annual financial statements [or directors' report or directors' remuneration report]”.

Where the directors have prepared revised financial statements or a revised report under s454 of the 2006 Act (previously s245 of the 1985 Act) and copies of the original financial statements or report have been sent to any person under s423 of the 2006 Act (previously s238 of the 1985 Act), the directors are required to send to such person:

[Regulation 12 of the 2008 Defective Accounts Regulations, previously regulation 10 of the 1990 Defective Accounts Regulations]

a. in the case of revision by replacement, a copy of the revised financial statements or revised report together with the auditor's report thereon; or

b. in the case of revision by supplementary note, a copy of that note together with the auditor's report thereon,

no more than 28 days after revision. In addition, the directors must also send the revised financial statements or report together with the auditor's report thereon to any other person who at the time of the revision is a member, a holder of the company's debentures or a person entitled to receive notice of general meetings.

Where the original financial statements or report have been laid before the company in general meeting, then any revised financial statements or report together with the auditor's report thereon must also be laid before the next general meeting of the company after the date of revision at which any financial statements or report for a financial year are laid. [Regulation 13 of the 2008 Defective Accounts Regulations, previously regulation 11 of the 1990 Defective Accounts Regulations] Where the original financial statements or report have been delivered to the Registrar, then any revised financial statements or report together with the auditor's report thereon must also be delivered to the Registrar within 28 days of the revision. [Regulation 14 of the 2008 Defective Accounts Regulations, previously regulation 12 of the 1990 Defective Accounts Regulations]

It is the revised financial statements or report together with the auditor's report thereon which must be sent to members, laid before members in general meeting and filed with the Registrar of Companies as described above. When the revision affects only the directors' report, it is only the revised directors' report and the auditor's report thereon which will be subject to these requirements. There is no facility to 'update' the auditor's report on the financial statements if they have not been revised. It therefore does not appear to be possible to issue a complete updated annual report as a single document. However, it may be acceptable to append the unamended original financial statements and auditor's report to the revised directors' report, making it clear that they are appended for ease of reference and have not been revised.

4.1 Revision by replacement

Where the original financial statements or report have been sent to the members, laid before the company in general meeting or delivered to the Registrar of Companies, the directors must include a statement concerning the revision in the revised financial statements or report. The statement must be in a 'prominent position' and include:

[Regulation 6 of the 2008 Defective Accounts Regulations, previously regulation 5 of the 1990 Defective Accounts Regulations]

a. confirmation that the revised financial statements or report replace the original financial statements or report for the financial year (specifying it) and, in the case of financial statements, confirmation that they are now the statutory financial statements;

b. confirmation that the financial statements or report have been revised as at the date of the originals and not as at the date of the revision, and accordingly do not deal with events between those dates;

c. the respects in which the original financial statements or report did not comply with the requirements of the 2006 Act (previously 1985 Act); and

d. details of any significant amendments made consequential upon the remedying of those defects.

Guidance on the form, content and positioning of such a statement is set out in **example 4.1** below. The date of approval of the revised financial statements, and related auditor's report, should be the actual date on which they were approved and not the date of approval of the original financial statements or report.

Example 4.1

Illustrative disclosures for revision by replacement

These revised financial statements replace the original financial statements for the year ended 31 December 20X1 which were approved by the board on 15 March 20X2. They are now the statutory financial statements of the company for that financial year. In accordance with the Companies Act [2006] [1985] (the Act), the financial statements have been revised as at the date of the original financial statements and not as at the date of this revision. Accordingly they do not deal with events between those dates.

The original financial statements did not comply with the Act in the following respect. [The share capital and share premium were incorrectly stated in the statement of financial position and related notes. This arose due to a misclassification between share capital and share premium relating to the issue of ordinary shares during the year. The effect of the revision is to reduce the issued share capital by £x and to increase the share premium by the same amount. There is no effect on the profit for the year or the net assets of the company.] [*If the adjustments are complex it may be preferable to give a brief description here and cross refer to more details in a note to the financial statements.*]

The Act requires that where revised financial statements are issued, a revised auditor's report is issued and this is attached.

Under [section 454] [section 245] of the Act the directors have authority to revise annual financial statements, the directors' report or directors' remuneration report if they do not comply with the Act. The revised financial statements or report must be amended in accordance with [the Companies (Revision of Defective Accounts and Report) Regulations 2008] [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. [*Alternatively this paragraph can be added to the Statement of directors' responsibilities.*]

Note: The Regulations require this statement to be made in a 'prominent position' in the revised financial statements. It is recommended that this statement should appear as the first page of the document (after the front cover). It is also recommended that the front cover should use the term 'Revised financial statements' or refer to the revision in some other way so that the revised financial statements may be easily distinguished from the original version. It is also permissible to include the text of the statement in the directors' report. When this is done, it will be necessary to remember that the directors' report will have been revised and therefore to refer to the revised directors' report as well as the revised financial statements where necessary.

4.2 Revision by supplementary note

Where the revision is by way of a supplementary note, the note itself should provide adequate information concerning the defect in the original financial statements or report and any consequential amendments and is required by the Defective Accounts Regulations to include a statement that:

[Regulation 6 of the 2008 Defective Accounts Regulations, previously regulation 5 of the 1990 Defective Accounts Regulations]

a. the note revises the original financial statements or report in certain respects and is to be treated as forming part of those financial statements or report; and

b. the annual financial statements or report have been revised as at the date of the originals and not as at the date of revision and accordingly do not deal with events between those dates.

Guidance on the form and content of such a statement is set out in **example 4.2** below. The date of approval of the supplementary note, and related auditor's report, should be the actual date on which they were approved and not the date of approval of the original financial statements.

Example 4.2

Illustrative disclosures for revision by supplementary note

Group plc

To the members

Supplementary note to the 31 December 20X1 financial statements

This supplementary note revises, in certain respects, the original financial statements of the company approved on 15 March 20X2 and is to be treated as forming part of those financial statements. The original financial statements did not comply with the Companies Act [2006] [1985] (the Act) by virtue of not disclosing details of a material contingent liability. In accordance with the Act, the financial statements have been revised as at the date of the original financial statements and not as at the date of this revision. Accordingly they do not deal with events between those dates.

The Act requires that where a supplementary note is issued, a revised auditor's report is issued and this is attached.

Directors' responsibilities

In addition to the directors' responsibilities described in the original financial statements, under [section 454] [section 245] of the Act the directors have authority to revise annual financial statements, the directors' report or directors' remuneration report if they do not comply with the Act. The revised financial statements or report must be amended in accordance with [the Companies (Revision of Defective Accounts and Report) Regulations 2008] [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.

Statement of revision

The effect of the revision is to include the following additional note at the end of the original financial statements.

> 37 Contingent liabilities
>
> A claim has been lodged by a customer against the group in respect of a major contract. The claim calls for rectification and for compensation for alleged damage to the customer's business. It has been estimated that the maximum liability should the action be successful is of the order of £______. The group has taken legal advice to the effect that the action is unlikely to succeed and accordingly no provision has been made in the financial statements. In the event that the claim were to succeed, the first £______ would be covered by insurance.

This supplementary note was approved by the board of directors on 30 June 20X2 and signed on its behalf by:

[Signature]

[Name of signatory to be stated]

Director

[Address of registered office]

Note: In this example the effect of the revision is evident from the additional note to the financial statements. Where changes are made to an existing primary statement or note it will be appropriate to explain the nature of the amendments made. This may be followed by a statement to the effect that 'A revised note x is attached which replaces note x contained in the original financial statements' but in some straightforward cases this may not be necessary.

5 Summary Financial Statements

If a summary financial statement (SFS) has been sent to shareholders prior to revision of the financial statements, the directors should consider whether the statement, had it been prepared by reference to the revised financial statements or report, would comply with s426 of the 2006 Act (previously s251 of the 1985 Act) and SI 2008/374, the Companies (Summary Financial Statement) Regulations 2008 (previously SI 1995/2092, the Companies (Summary Financial Statement) Regulations 1995) (see below). If the SFS requires revision, a revised statement should be sent to members and any person who received a copy of the original SFS. Where no amendment is required, a note should be sent to members and recipients of the SFS indicating that the directors' report and/or the financial statements for the financial year (specifying it) have been revised in a respect which has no bearing on the SFS for that year. If the auditor's report on the revised financial statements or directors' report is qualified, a copy of that report should be attached to the note.

Regulation 17 of the 2008 Defective Accounts Regulations (previously regulation 14 of the 1990 Defective Accounts Regulations, as amended in 2005), requires that where the summary financial statement does not comply with s426 of the 2006 Act (previously s251 of the 1985 Act) or the Companies (Summary Financial Statement) Regulations 2008 (previously the Companies (Summary Financial Statement) Regulations 1995), or if it had been prepared by reference to revised accounts or a revised report would not have complied with those requirements, the directors should prepare a further summary financial statement under s454 of the 2006 Act (previously s251 of the 1985 Act) and send that statement to:

a. any person who received a copy of the original summary financial statement; and

b. any person to whom the company would be entitled, as at the date the revised summary financial statement is prepared, to send a summary financial statement for the current financial year.

The effect is that a revised SFS will be required where the contents of the SFS are affected by the amendment to the full financial statements or report and therefore the original SFS would no longer comply with the Act (e.g. because it would not be consistent with the revised full financial statements or report).

6 Qualified reports on revised financial statements and distributions

Where the auditor's report on the revised financial statements is qualified, the company may not proceed to make a distribution by reference to those financial statements until the auditor's statement required in such circumstances by s837 of the 2006 Act (previously s271 of the 1985 Act) has been made.

7 Abbreviated accounts

The Defective Accounts Regulations also deal with the revision of abbreviated accounts. This may become necessary either as a consequence of a revision of the full financial statements or because of an error in the abbreviated accounts themselves. Abbreviated accounts are outside the scope of this manual because small and medium-sized companies preparing their accounts in accordance with IFRSs are not permitted to file abbreviated accounts with the Registrar.