COMMON DISCLOSURE ERRORS
A BRIEF GUIDE TO THE REQUIREMENTS
APRIL 2014
This helpsheet is intended to assist members preparing statutory accounts for small audit exempt limited companies, by highlighting some of the most commonly noted accounting errors and disclosure omissions identified in the Practice Monitoring process. In the majority of cases the companies referred to will be owner managed with no outside shareholders.

INTRODUCTION

It is the responsibility of company directors to prepare accounts which give a true and fair view and meet the necessary statutory disclosure requirements. The responsibilities of the practitioner are those specifically agreed with the client in the engagement letter. However, in most cases there will be a professional duty to prepare accounts that conform with generally accepted accounting principles and the best practice guidance on the preparation of accounts produced by ICAS, the Framework for the Preparation of Accounts.

Practice Monitoring (and its predecessor, Quality Review) includes a review of statutory disclosure requirements as part of the review of the accounts of incorporated entities. The Financial Reporting Council has also been monitoring the accounts of small and medium sized companies over the past several years and pressurising the professional accountancy bodies in the UK to improve the quality of such accounts.

The over reliance on accounts production software can be a common reason for disclosure errors and care should be taken at the review stage to ensure compliance, eg via completion of an appropriate disclosure checklist.

Below are listed the more commonly noted accounting errors and disclosure omissions identified at monitoring visits.

TRANSACTIONS WITH DIRECTORS AND FRS 8/FRSSE RELATED PARTY DISCLOSURES

The following are often not disclosed:

- A material equity interest held by a director; and any dividends paid in his or her capacity as shareholder.
- Every advance or credit granted to its directors subsisting at any time during the financial year (Section 413 of the 2006 Companies Act).
- The ultimate controlling party.
- Personal guarantees given by directors.
- The number of directors accruing pension benefits.
- Benefits in kind from the directors’ emoluments figure.
In addition, although FRS 8 disclosure requirements do not need to be made in the abbreviated accounts, the disclosure requirements of the Companies Act do. This causes confusion with either information being provided that is not required or relevant information is omitted (FRSSE 15.1-15.5).

GOING CONCERN

The FRSSE and FRS18 require directors to assess whether they have significant doubts about the entity’s ability to continue as a going concern. There are also requirements to disclose any material uncertainties in making the assessment and where the period they have considered is less than a year from the date of approval of the accounts. Often there is insufficient or no disclosure made.

In cases of potential wrongful trading directors should be made fully aware of their responsibilities.

Examples are provided in the FRC publication: An Update for Directors of Companies that adopt the FRSSE: Going Concern and Financial Reporting which was issued in March 2009.

DIVIDENDS

The incorrect treatment of dividends, where proposed dividends are accrued or included in the profit and loss account.

ACCOUNTING POLICIES

Accounting policies for material items are, in some cases, omitted or are often insufficiently detailed.

The accounting policies required obviously depends on the nature of the entity’s business but care must be exercised to ensure that accounting policies for all material transactions are included. Common omissions are turnover, deferred taxation, intangible fixed assets, investment property and stock valuation policies.

Typical examples of insufficiently detailed accounting policies are:

- The turnover policy is not tailored to the client and does not provide appropriate information on the revenue recognition policy. This is particularly the case when the entity concerned is providing services as opposed to selling goods.
- The deferred taxation policy does not deal with the method of measurement, whether discounted or undiscounted and when the liability will crystallise.
- The stock valuation policy fails to cover all types of stock or all the appropriate methods of valuation.
EXEMPTIONS
The main issues identified are:

• The incorrect use of the Companies Act 2006 section references in the audit exemption statement on the balance sheet and directors’ report, and the failure to disclose the version of the FRSSE adopted in the accounting policies note.

• Instances where the exemptions have been incorrectly applied and care should be taken, in particular, to identify members of ineligible groups. A group is considered ineligible if it includes an authorised insurance company, a banking company, an e-money issuer, an ISD investment firm or a UCITS management company.

• The exemptions statements are often omitted on charitable company accounts. The Companies Act 2006 requires you to state that the financial statements have been prepared under the small companies provisions.

ACCOUNTANT’S REPORT
In a number of cases the accounts reviewed either do not include an accountant’s report, or the report does not follow the format prescribed by ICAS. Although this is not a requirement it is best practice to do so.

The wording of the report is provided in the revised Framework of the Preparation of Accounts.

OTHER COMMON DISCLOSURE OMISSIONS/ERRORS

• The FRSSE is not referred to in the accounting policies.

• Political and charitable donations which exceed £2,000 are not disclosed in the Directors’ Report.

• The basis for the preparation of the financial statements is not disclosed.

• Goodwill is not amortised and no explanation provided.

• Secured creditors are not adequately disclosed, with no details of security and/or repayment terms.

• Amounts recoverable on long term contracts are shown as trade debtors.

• Rent not properly recognised as an operating lease.

• Operating lease commitments not disclosed.

• Post balance sheet events not disclosed.

• No approval date on the accounts.

• Incomplete disclosure of investment properties.

• Investment properties shown at cost. These are required to be stated at market value as per SSAP 19/FRSSE.

• Incomplete disclosure in respect of fixed asset valuations.

• The fixed asset policy stating that the assets are held at cost when they have been revalued.

• Amount due in relation to taxation and social security not separately disclosed.
WHERE CAN I GET MORE HELP AND GUIDANCE?

There are many commercial products available to assist firms in the form of disclosure checklists, model accounts, as well as computer software. If you require assistance regarding these, contact the Practice Support department on +44 (0)131 347 0254. In addition, members can contact the Accounting and Auditing department regarding disclosure issues by emailing accountingandauditing@icas.org.uk. Finally, ICAS offers a range of courses covering disclosure issues which can be accessed from the home page of the ICAS website.

For more information regarding Regulatory Monitoring, ie Audit Monitoring or Practice Monitoring, contact auditandpracticemonitoring@icas.org.uk or phone +44 (0)131 347 0284. For more information regarding the CA Practitioner Service, contact Linda Laurie on +44 (0)131 347 0249 or email caps@icas.org.uk.

USEFUL LINKS

Practice Monitoring: icas.org.uk/regulation-and-ethics/practice-monitoring/
Going Concern – FRC guidance: frc.org.uk/FRC-Documents/FRC/An-Update-for-Directors-of-companies-that-adopt-th.aspx

Disclaimer

This helpsheet is designed to assist members with an important issue of general application and is not intended to be a definitive statement covering all aspects of this area. No responsibility for any person acting or refraining to act as a result of any material in this helpsheet can be accepted by ICAS.