



MEMORANDUM

To: Technical Representatives
From: Matthew Shaw
Date: 22 March 2016
Ref: TM 10/16

FRS 102 Section 1A Disclosure Checklist and Associated Documents

As a result of requests from a number of practices, HAT has released four documents from our planned 01/16 Audit Manual, including a FRS 102 Section 1A disclosure checklist, revised wording for audit reports and (due to the revision to audit report wordings), revised wording for letters of engagement and assignment terms letters.

Most small clients will continue to adopt the FRSSE (effective January 2015) up to periods commencing 1 January 2016 (effectively up to and including 30 November 2016 year-ends). Therefore this Memo is not relevant for most clients. However, a number of small clients are starting to prepare FRS 102 Section 1A financial statements. It must be noted that neither charities nor LLPs can adopt FRS 102 Section 1A, although, the latter should be able to later in 2016 once the relevant legislation has been passed. Also, FRS 102 Section 1A cannot be adopted for any accounting period which commenced before 1 January 2015.

The reasons for early adopting FRS 102 Section 1A include:

- Recently formed small companies where it is considered inefficient to adopt the FRSSE (effective January 2015);
- Companies which have early adopted the provisions of SI 2015/980 as under the old size thresholds they would be medium but under the new size thresholds they are small and thus avoid having to consolidate etc.;
- Small companies where the accounting treatments under FRS 102 Section 1A are beneficial from a tax perspective; and
- Accountancy practices which have historically not adopted the FRSSE, and thus for December 2015 year-ends are moving their client to the FRS 102 Section 1A regime.

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It must however, be fully appreciated that the adoption of FRS 102 Section 1A is not without risk for directors, auditors and accountants. The Standard contains a number of mandatory disclosures and a number of encouraged disclosures. The FRC has stated on a number of occasions and in the Standard itself that including both the mandatory and encouraged disclosure may **not** be sufficient to show a true and fair view and that preparers of financial statements should have regard to all of the disclosure required by 'full' FRS 102.

When FRS 102 Section 1A is adopted, the company also has to adopt the provisions of SI 2015/980. This includes the requirement for auditors to give a more detailed opinion on the directors' report and (where applicable) the strategic report. The FRC has not updated its example audit report wording and in the light of ISA 700 currently undergoing a major revision, it is unlikely that any audit report working will be issued by the FRC until June or July 2016.

HAT has thus taken the old audit report wording issued by the FRC and simply replaced the existing opinion regarding these two statements with the opinion required by SI 2015/980. This is an unprecedented step as HAT has never previously issued audit wording prior to the FRC issuing guidance. Although we have based the example report on the wording contained in SI 2015/980 it is of course not possible for us to exactly predict what the FRC will conclude is the most appropriate wording to manage auditor's responsibilities and liability. **Therefore this wording is provided on the express understanding that HAT will not be held liable for any losses that arise from its use.**

Please note that the revised audit report wording also needs to be used for client that adopt the September 2015 version of FRS 102 or corporate charities that adopt the revision of the FRS 102 SORP introduced by Bulletin 1.

If you have any questions about this Technical Memo please contact HAT's Technical Team.