20 May 2016

Your Ref:
Case number: 033768/MATT

Private and confidential

Rt Hon R Fuller MP
House of Commons
London
SW1A 0AA

Dear Mr Fuller

BHS Limited

Thank you for your letter dated 13 May 2016 to Michael Izza.

I am the Director of Professional Conduct and Michael has asked me to respond.

Addressing your numbered queries in relation to auditing practices I can advise as follows:

1. Are there any rules or guidelines that auditors should follow when a sale is pending of the entity to which the audit is being prepared?

There are no explicit requirements or guidelines in the auditing standards dealing with the pending sale of the audited entity in the period before the date of the auditor's report.

However, there are general auditing requirements in ISA 315, 'Identifying the risks of material misstatement', which require an auditor to identify and assess risks of material misstatement of financial statements. Appendix 2 to ISA 315 provides examples of conditions and events that may indicate risks of material misstatement. This includes:

- Changes in the entity such as large acquisitions, reorganisations or other unusual events; and
- Entities or business segments likely to be sold.

Therefore, if an auditor is aware of events of this nature when planning the audit, then the audit approach would be designed to appropriately respond to these risks.

Alternatively, if unexpected events or changes in conditions occur during the audit (e.g. if the sales process began mid-audit) then the auditor may need to modify the overall audit strategy, audit plan and the planned nature, timing and extent of further audit procedures based on the revised consideration of assessed risk.

The firm may also need to reassess its materiality assessment if a change in circumstances occurs during the audit.
2. Would it be usual or good practice for the auditors to be made aware of the imminent possibility of a sale? In this particular case, the sale was announced five days after the auditor's statement.

It is usual practice for the directors to make the auditors aware of information or explanations that are necessary for the performance of the auditor's duties.

A company's directors have a responsibility under the Companies Act 2006 to provide the requested information or explanations, and the directors' report has to confirm relevant audit information has been disclosed:

4.18 Contents of directors' report: statement as to disclosure to auditors

(2) The directors' report must contain a statement to the effect that, in the case of each of the persons who are directors at the time the report is approved—

(a) so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and

(b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

(3) "Relevant audit information" means information needed by the company's auditor in connection with preparing his report.

3. Would it be usual or good practice for auditors to advise the company directors on the content of the "going concern" statement?

The directors are responsible for the preparation of the accounts, including the wording of any disclosures in the notes.

The firm's responsibility, as stated in the audit report, is to also read the financial and non-financial information in the annual report to identify material inconsistent with the firm's knowledge acquired during the audit.

The auditors would therefore inform the directors if the directors' wording of the going concern note was inconsistent and/or if it did not comply with the requirements of FRS 18. If the directors did not alter the wording, the firm would consider the implications for the audit report.

4. If the auditor was aware of the imminent possibility of a sale, what actions by the auditor might be deemed appropriate – particularly with regard to the "... continued financial support..." issue?

The auditor would want to be satisfied that the wording of the note remained consistent with the knowledge acquired during the audit.

5. Are there any guidelines for auditors regarding a change in the date/completion of their report?

There are no guidelines on when an audit has to be carried out.
The directors are responsible for delivering accounts to Companies House within the time periods specified in the Act. For a private limited company, the accounts have to be filed within nine months of the year-end.

6. If the auditor’s report was completed earlier specifically because of the imminence of a sale, would this constitute usual or good practice?

It would depend on the circumstances of the sale and of the audited entity.

As explained in point 5 above, the audit can be carried at any time and the onus is on the directors to ensure they satisfy their filing responsibilities under the Act.

Completion of up-to-date statutory records for a company, including the filing of the latest accounts with Companies House, may well have been a pre-requisite in the sales process.

If you have any questions, please contact us by telephone or email and we will be happy to help.

Yours sincerely

Duncan Wiggetts
Director of Professional Conduct
Professional Standards

T +44 (0)1908 546305
E duncan.wiggetts@icaew.com