



# PREPARING AN AUDIT REPORT FOR LIMITED LIABILITY PARTNERSHIPS (LLPS)

GUIDE

September 2018

Audit and Assurance Faculty Helpsheets are now known as 'Guides'. This Guide was last updated in September 2018 and is based on the relevant laws and regulations that apply as at 1 September 2018. The only changes since the last version of the Guide are to the use of the audit report section to reflect the release of Technical Release 01/03AAF (Revised).

## Introduction

This Guide is designed to explain the main changes that are needed to the audit report of a limited liability partnership (LLP) that does not prepare group financial statements compared to that of a company. It does not seek to explain every difference, just the key areas to consider as a result of the differing legal and regulatory requirements.

The audit requirements for LLPs are set out in the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 ('the LLP regulations'), which contain specific details of how the accounting and auditing provisions of the Companies Act 2006 apply to LLPs.

The example wording in this Guide has been adapted from the company examples in the FRC's Compendium of illustrative auditor's reports.

For the purposes of this Guide it has been presumed that the LLP is not listed, is not a Public Interest Entity as defined by the EU Regulation and is not required nor has chosen voluntarily to report on how it has applied the UK Corporate Governance Code.

Where the LLP is the parent entity of a group, refer to the separate group Guides for guidance on how to amend the audit report to deal with the auditor reporting requirements for a group.

The guidance in this Guide suggests options for how LLP audit reports can comply with the requirements of the Companies Act 2006, the LLP regulations and International Standards on Auditing (UK). However, provided that the audit report complies with the applicable requirements, audit firms may prefer alternative ways of presenting the required information.

## Pervasive changes to the audit report

All references to 'company' need to be amended to 'limited liability partnership'.

All references to 'directors' need to be amended and the recommended term to use is 'members' as that is the term that is used in the Limited Liability Partnerships Act 2000 and the LLP regulations.

The references to the 'Companies Act 2006' need to be amended to 'Companies Act 2006 as applied to limited liability partnerships'.

## Addressee of the report

The audit report of an LLP is addressed to its members, the same as for a company.

## Opinion

The opinion paragraph describes the financial statements, including specifying the titles of the primary statements. However, it is important that the titles of the primary statements precisely match those used by the entity.

The opening paragraph of the 'opinion' section needs to reflect whether the financial reporting framework is either UK GAAP (including either FRS 101 or 102) or IFRS.

The actual audit opinion needs to be amended as follows:

In our opinion, the financial statements:

- give a true and fair view of the state of the company's limited liability partnership's affairs as at [date] and of its [profit/loss] for the year then ended;
- have been properly prepared in accordance with [United Kingdom Generally Accepted Accounting Practice / IFRSs as adopted by the European Union]; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships.

## Basis for opinion

Where the auditor has taken advantage of an exemption provided in paragraphs 6.11, 6.12 or 6.13 of the FRC's Ethical Standard for the audits of 'small entities'<sup>1</sup> in relation to non-audit services or partners/statutory auditors joining the entity, the auditor is required to disclose this in the 'basis for opinion' section of the audit report:

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company limited liability partnership in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and the provisions available for small entities, in the circumstances set out in note [X] to the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

No changes are needed apart from the pervasive changes referred to above.

## Other information

There is no requirement for the members of an LLP to prepare a members' report or a strategic report under either the LLP regulations or the LLP SORP. However, the LLP may choose to prepare a members' report to communicate certain matters required by the LLP SORP<sup>2</sup>, such as the principal activities of the LLP, branches, designated members and the policy for members' drawings. Alternatively, the members may choose to include these matters in the notes to the financial statements.

Where there is no other information published with financial statements of the LLP, as the members are including the matters required by the LLP SORP in the notes to the financial statements, then there is no need for an 'other information' section of the audit report.

If however, other information is published with the financial statements, for example a voluntary members' report is prepared, then the 'other information' section needs to be amended as follows:

<sup>1</sup> As defined in the FRC's Ethical Standard, paragraph 6.4.

<sup>2</sup> Refer to paragraphs 30 and 31 of the LLP SORP.

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon<sup>3</sup>. The ~~directors~~ members are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, ~~except to the extent otherwise explicitly stated in our report~~, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Opinions on other matters prescribed by the Companies Act 2006

As discussed above, there is no requirement for LLPs to prepare either a members' report or a strategic report. Similarly, this means that there is no requirement for the auditor to report on any members' report or strategic report as the provisions in section 496 of the Companies Act 2006 do not apply to LLPs. Therefore, the section on 'opinions on other matters prescribed by the Companies Act 2006' is not required for an LLP.

Even if the LLP voluntarily chooses to prepare a members' report, the section is still not required as the auditor's responsibilities in relation to that members' report are covered in the 'Other information' section above.

### Matters on which the auditor is required to report by exception

The matters on which the auditor is required to report by exception needs to reflect the fact that there is no requirement for the auditor to report on compliance with the disclosure requirements for directors' benefits (remuneration, pensions and compensation for loss of office).

In addition, where the members have prepared the financial statements in accordance with the small LLPs regime, the auditor is required to consider in the audit report whether this was appropriate.

~~In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.~~

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 as applied to limited liability partnerships requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- ~~certain disclosures of directors' remuneration specified by law are not made; or~~
- we have not received all the information and explanations we require for our audit[; or
- ~~the directors members were not entitled to prepare the financial statements in accordance with the small companies limited liability partnerships regime and take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report].~~

<sup>3</sup> A more specific description of the other information may be used, such as: The other information comprises the members' report.

## Responsibilities of members

No changes are needed other than amending the references to 'directors' and 'company'.

### Auditor's responsibilities for the audit of the financial statements

ISA (UK) 700 includes a detailed description of the responsibilities of the auditor and the wording to use varies depending on whether the entity is listed, the auditor reports key audit matters in accordance with ISA (UK) 701 or where there is a group audit.

As for a company, an LLP auditor has three choices in relation to the more detailed description of the auditors' responsibilities:

- to include within the audit report directly;
- to include within an appendix to the audit report; or
- to include a reference to a more detailed description on the FRC's website.

#### 1. Include within the audit report directly

The only changes needed are to amend the references to 'directors' and 'company'.

An example of how this would look is given in Appendix 2 of the FRC Bulletin – please note that the example in that Appendix is for a group and all references to 'group' need to be removed or amended to refer to the LLP. In addition, the last bullet point in that example needs to be deleted as that responsibility only applies to group auditors:

- ...
- ~~Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.~~
- ...

#### 2. Include within an appendix to the audit report

Where the more detailed description is included in an appendix, the references to 'directors' and 'company' in that Appendix again need to be amended. The audit report needs to indicate the page number or other specific reference to the location of the more detailed description.

An example of how this would look is given in Appendix 6 of the FRC Bulletin – please note that the example here is for a listed group and all references to 'group' need to be removed or amended to refer to the LLP. In addition, the following further changes are needed to remove responsibilities that only apply for listed entities or groups:

- ...
  - ~~Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the group financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.~~
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- ~~We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.~~
- ~~From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when,~~

~~in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.~~

### 3. Include a reference to a more detailed description on the FRC's website

Where the auditor chooses to refer to the description of the auditor's responsibilities on the FRC website, the audit report needs to refer to [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

An example of how this would look is given in Appendix 1 of the FRC Bulletin.

The website link above does not refer anywhere to 'company' and uses the term 'entity', which would be equally applicable to LLPs. It does, however refer to 'directors' but it should be clear from the context that, as this is setting out the responsibilities under ISAs, any such references relate to members for an LLP.

#### Use of the audit report

ICAEW guidance within Technical Release 01/03AAF (Revised), The Audit Report and Auditors' Duty of Care to Third Parties, includes clarification language stating that the audit is performed for the benefit of the members, as a body, in accordance with the Companies Act 2006 and case law. This wording is also referred to as 'Bannerman' wording.

The guidance in Technical Release 01/03AAF (Revised) states that this paragraph is suitably placed as the final section of the audit report with a heading 'Use of our report'.

The typical company wording needs to be amended to read as follows:

This report is made solely to the ~~company's~~ limited liability partnership's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 as applied to limited liability partnerships. Our audit work has been undertaken so that we might state to the ~~company's limited liability partnership'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~~ limited liability partnership and the ~~company's limited liability partnership's~~ members as a body, for our audit work, for this report, or for the opinions we have formed.

It will remain for each firm to decide its own individual approach to the management of audit risk and whether to include the above wording. However, as the guidance in Technical Release 01/03AAF (Revised) makes clear, while a third party's use of an audit report presents uncertainty for auditors, the best risk management policy is for firms to take the steps that are necessary to carry out quality audits.

#### Signature on the audit report

The requirements for LLPs are effectively the same as for companies and the audit report is required to be signed by the senior statutory auditor, for and on behalf of the audit firm:

[Signature]  
John Smith (Senior Statutory Auditor)  
For and on behalf of ABC LLP, Statutory Auditor  
[Address]  
[Date]

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Chartered Accountants' Hall  
Moorgate Place, London  
icaew.com

T +44 (0)20 7920 8100  
E [generalenquiries@icaew.com](mailto:generalenquiries@icaew.com)