



PREPARING AN AUDIT REPORT FOR A GROUP – COMBINED AUDIT REPORT FOR THE GROUP AND PARENT COMPANY

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 group compared to that of a company only. 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 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 parent company is not listed nor a Public Interest Entity as defined by the EU Regulation. It is also presumed that the group and parent company financial statements are being reported on in the same audit report. A separate Guide has been prepared which explains the changes where the group and parent company financial statements are reported on in separate audit reports.

The guidance in this Guide suggests options for how group audit reports can comply with the requirements of the Companies Act 2006 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

References to "company" need to be amended to refer to the "group" as well as the company. The auditor may also wish to change all references from "company" to "parent company". Similarly, references to "financial statements" may need to be amended to "group financial statements" or "[parent] company financial statements" where relevant.

Opinion

The opening paragraph of the "opinion" section needs to define the company and the group and refer to any additional consolidated primary statements prepared in addition to those of the company:

We have audited the financial statements of [XYZ Limited] (the 'parent company') and its subsidiaries (the 'group') for the year ended [date] which comprise the [consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated and [parent] company balance sheets, the consolidated and [parent] company statements of

changes in equity, the consolidated and [parent] company cash flow statements]* and notes to the financial statements+, including a summary of significant accounting policies.

** The terms used to describe the primary financial statements should be the same as those used in the financial statements.*

+ Assumes that the group and parent company notes are presented together. If presented separately, may wish to refer separately to notes to the group financial statements and notes to the parent company financial statements.

The above assumes that the company has taken the section 408 exemption from preparing a separate profit and loss account and statement of comprehensive income for the parent company. If this is not in fact the case, then the above paragraph should also refer to those additional primary statements. It also assumes that a separate parent company cash flow statement has been prepared as this is required by IAS 7, but would not be required if the parent company financial statements were prepared under either FRS 101 or FRS 102.

The reference to the financial reporting framework needs to be amended depending on whether the group and parent company financial statements follow the same framework and whether the section 408 exemption is taken:

UK GAAP (either FRS 101 or FRS 102) for both group and parent company

No changes are required.

IFRS for both group and parent company where the section 408 exemption is taken

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the [parent] company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

IFRS for both group and parent company where the section 408 exemption is not taken

No changes are required.

IFRS for the group and UK GAAP for the parent company

The financial reporting framework that has been applied in ~~their~~ the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the [parent] company financial statements is applicable law and United Kingdom Accounting Standards, including [Financial Reporting Standard 101 “Reduced Disclosure Framework”] [or] [Financial Reporting Standard 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”] (United Kingdom Generally Accepted Accounting Practice).

The actual audit opinion needs to be amended as follows:

UK GAAP for both group and parent company

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and of the [parent] company's affairs as at [date] and of the group's its [profit/loss] for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

IFRS for both group and parent company where the section 408 exemption taken

In our opinion, ~~the financial statements~~:

- the financial statements give a true and fair view of the state of the group's and of the [parent] company's affairs as at [date] and of the group's its [profit/loss] for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted in the EU;
- the [parent] company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance of the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

IFRS for both group and parent company where the section 408 exemption not taken

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and of the [parent] company's affairs as at [date] and of the group's and [parent] company's its [profit/loss]¹ for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

IFRS for the group and UK GAAP for the parent company

In our opinion, the financial statements:

- the financial statements give a true and fair view of the state of the group's and of the [parent] company's affairs as at [date] and of the group's its [profit/loss] for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the [parent] company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

This needs to refer to group and parent company.

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

¹ If the group has made a profit and the parent company a loss or vice versa, this needs to be stated.

are independent of the group and [parent] company 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

The only change is to refer to group or parent company financial statements.

Opinions on other matters prescribed by the Companies Act 2006

There are no changes required to this section.

Matters on which the auditor is required to report by exception

This section needs to be amended to clarify which of the matters to report by exception apply to the parent company only.

In the light of the knowledge and understanding of the group and the [parent] company and its their environment obtained in the course of the audit, we have not identified material misstatements in [the strategic report or] the directors' report.

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

- adequate accounting records have not been kept by the [parent] company, or returns adequate for our audit have not been received from branches not visited by us; or
- the [parent] company 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 were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report].

Responsibilities of directors

There are no changes other than the references to group and parent 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.

A company 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 following changes are needed to the auditor's responsibilities section:

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's or the parent company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's or the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group or the parent company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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.

2. Include within an appendix to the audit report

The same changes would be needed to the appendix as option 1 above.

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

There are no changes required in this situation.

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”.

In contrast to the other sections, there would be no change required to the wording in Technical Release 01/03AAF (Revised) to refer to “group and parent company” as the duty in law is to the members of the parent company only.

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

There are no changes required to this section.

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