



PREPARING AN AUDIT REPORT FOR QUALIFYING PARTNERSHIPS

GUIDE

August 2019

Audit and Assurance Faculty Helpsheets are now known as 'Guides'. The Helpsheet that this Guide replaces was last updated in September 2018. The Guide is based on the relevant laws and regulations that apply as at 1 August 2019.

The only changes since the September 2018 version are to the sections on the Addressee of the report and Use of the audit report.

Introduction

This Guide is designed to explain the main changes that are needed to the audit report of a limited partnership which is a qualifying partnership (QP), and 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 QPs are set out in the Partnerships (Accounts) Regulations 2008 ('the QP regulations'), which contain specific details of how the accounting and auditing provisions of the Companies Act 2006 apply to QPs.

The example wording in this helpsheet 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 QP 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 QP is the parent entity of a group, refer to the separate group helpsheets for guidance on how to amend the audit report to deal with the auditor reporting requirements for a group.

This Guide suggests options for how QP audit reports can comply with the requirements of the Companies Act 2006, the QP 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 'qualifying 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 QP regulations.

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

Addressee of the report

The audit report of a QP is addressed to the partners of the QP. It is not addressed to “members” as the members of a QP are only the general partner(s) and therefore would not include the limited partners.

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 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 qualifying 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 qualifying 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’¹ 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 qualifying 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

No changes apart from the pervasive changes referred to above.

Opinions on other matters prescribed by the Companies Act 2006

Under the QP regulations, the members of a QP are required to prepare a members' report and a strategic report. The QP regulations were amended by the Statutory Auditors and Third country Auditors Regulations 2016 (Statutory Instrument 2016/649) to require auditors to provide opinions on these reports in an equivalent manner to a company. Therefore, the only amendments necessary to this section of the audit report are the pervasive changes referred to above.

¹ As defined in the FRC's Ethical Standard, paragraph 6.4

Matters on which the auditor is required to report by exception

The matters on which the auditor is required to report by exception are the same as for companies, as section 498 of the Companies Act 2006 is applied to QPs by the QP Regulations.

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 as applied to qualifying 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' members' 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 qualifying partnerships regime and take advantage of the small companies' qualifying partnerships' exemptions in preparing the directors' members' report and from the requirement to prepare a strategic report].

Responsibilities of directors (members)

No changes apart from the pervasive changes referred to above.

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, a QP 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 – 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 QP. 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 – 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 QP. 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.

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 QPs. 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 a QP.

Use of the audit report

ICAEW guidance within Technical Release 01/03 (Revised), The Audit Report and Auditors' Duty of Care to Third Parties, includes language which clarifies 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 qualifying partnership's members partners~~, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 as applied to qualifying partnerships. Our audit work has been undertaken so that we might state to the ~~company's qualifying partnership's members partners~~ 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 qualifying partnership~~ and the ~~company's qualifying partnership's members partners~~ 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 high quality audits.

Signature on the audit report

The requirements for QPs 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]

© ICAEW 2019

All rights reserved.

If you want to reproduce or redistribute any of the material in this publication, you should first get ICAEW's permission in writing.

ICAEW will not be liable for any reliance you place on the information in this material.

You should seek independent advice.

ICAEW is a world leading professional membership organisation that promotes, develops and supports over 150,000 chartered accountants worldwide. We provide qualifications and professional development, share our knowledge, insight and technical expertise, and protect the quality and integrity of the accountancy and finance profession.

As leaders in accountancy, finance and business our members have the knowledge, skills and commitment to maintain the highest professional standards and integrity. Together we contribute to the success of individuals, organisations, communities and economies around the world.

Because of us, people can do business with confidence.

ICAEW is a founder member of Chartered Accountants Worldwide and the Global Accounting Alliance.

www.charteredaccountantsworldwide.com

www.globalaccountingalliance.com.

Chartered Accountants' Hall
Moorgate Place, London
icaew.com

T +44 (0)20 7920 8100
E generalenquiries@icaew.com

TECPLN15834