



# PREPARING AN AUDIT REPORT FOR A GROUP: SEPARATE AUDIT REPORTS 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 separate audit reports of a group and parent company 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 separate audit reports. A separate Guide has been prepared which explains the changes where the group and parent company financial statements are reported on in a combined audit report.

The guidance in this Guide suggests options for how group and parent company 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 'group' for the group audit report. References to 'parent company' may be amended for the parent company audit report. Similarly, references to 'financial statements' may need to be amended to 'group financial statements' or 'parent company financial statements'.

## Opinion

The opening paragraph of each 'opinion' section needs to define the company and the group and refer to the relevant primary statements for the group and parent company.

The parent company audit report needs to reflect whether the parent company only has taken the following exemptions:

- the section 408 exemption from preparing a separate profit and loss account; and
- the exemption under FRS 101 or FRS 102 from preparing a separate cash flow statement:

## Group

We have audited the **group** financial statements of [XYZ Limited] (the '**group**' ~~company~~) for the year ended [date] which comprise the [**consolidated** profit and loss account, the **consolidated** statement of comprehensive income, the **consolidated** balance sheet, the **consolidated** statement of changes in equity, the **consolidated** cash flow statement]\* and notes to the financial statements+, including a summary of significant accounting policies.

## Parent company

We have audited the financial statements of [XYZ Limited] (the '**parent**' company') for the year ended [date] which comprise the [~~profit and loss account, the statement of comprehensive income,~~ the **parent** company balance sheet, the **parent** company statement of changes in equity, ~~the cash flow statement~~]\* 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 reference to the financial reporting framework needs to be amended depending on whether the group or parent company financial statements follow the same framework and whether the section 408 exemption is taken:

## Group

No changes are required regardless of whether prepared under IFRS or UK GAAP.

## Parent company

### UK GAAP

No changes are required.

### *IFRS 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 applied in accordance with the provisions of the Companies Act 2006.

### *IFRS where the section 408 exemption is not taken*

No changes are required.

The actual audit opinions need to be amended as follows:

## Group

### UK GAAP

In our opinion, the **group** financial statements:

give a true and fair view of the state of the **group's company'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; and

have been prepared in accordance with the requirements of the Companies Act 2006.

#### *IFRS*

In our opinion, the group financial statements:

give a true and fair view of the state of the group's company's affairs as at [date] and its [profit/loss] 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.

#### **Parent company**

##### *UK GAAP*

In our opinion, the [parent] company financial statements:

- give a true and fair view of the state of the [parent] company'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; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

##### *IFRS where the section 408 exemption taken*

In our opinion, the [parent] company financial statements:

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

##### *IFRS where the section 408 exemption not taken*

In our opinion, the [parent] company financial statements:

- give a true and fair view of the state of the [parent] company's affairs as at [date] and of its [profit/loss] 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.

#### **Basis for opinion**

The only change is to refer to group or parent company in the applicable audit report.

#### **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**

The only change is to clarify whether referring to the group or parent company financial statements:

## Group

In our opinion, based on the work undertaken in the course of the audit:

- the information given in [the strategic report] and the directors' report for the financial year for which the group financial statements are prepared is consistent with the group financial statements; and
- [the strategic report and] the directors' report [have/has] been prepared in accordance with applicable legal requirements.

## Parent company

In our opinion, based on the work undertaken in the course of the audit:

- the information given in [the strategic report] and the directors' report for the financial year for which the [parent] company financial statements are prepared is consistent with the [parent] company financial statements; and
- [the strategic report and] the directors' report [have/has] been prepared in accordance with applicable legal requirements.

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

These sections need to be amended to clarify which of the matters to report by exception apply to the parent company only.

## Group

In the light of the knowledge and understanding of the group company and its 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, 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 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<sup>1</sup>.~~

## Parent company

In the light of the knowledge and understanding of the [parent] company and its 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

<sup>1</sup> This would not need to be reported on in both audit reports. While the above shows this in the parent company audit report only, it could instead only be included in the group audit report.

- 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]<sup>1</sup>.

## Responsibilities of directors

There are no changes other than the references to group or 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:

#### Group

Our objectives are to obtain reasonable assurance about whether the group 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 group 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 group 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 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 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 group 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 company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the group financial statements, including the disclosures, and whether the group 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.

### **Parent company**

The only changes are to refer to '[parent] company' and '[parent] company financial statements'.

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

The same changes would be needed to the appendix as per 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' in the group audit report as the duty in law is to the members of the parent company only. Therefore, the appropriate wording referring to the 'company' would still be expected to be included in both the group and parent company audit reports.

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.

## Other matter paragraph

Another matter paragraph is required to refer to the other audit report on either the group or parent company financial statements and refer where relevant to any statement on material uncertainty related to going concern, emphasis of matter or modification:

### Group

We have reported separately on the [parent] company financial statements of [XYZ Limited] for the year ended [date]. [That report includes a statement on a material uncertainty related to going concern.] [That report includes an emphasis of matter.] [The opinion in that report is [qualified / an adverse opinion / a disclaimer of opinion].]

### Parent company

We have reported separately on the group financial statements of [XYZ Limited] for the year ended [date]. [That report includes a statement on a material uncertainty related to going concern.] [That report includes an emphasis of matter.] [The opinion in that report is [qualified / an adverse opinion / a disclaimer of opinion].]

## Signature on the audit report

There are no changes required to this section.

© ICAEW 2018

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](http://www.charteredaccountantsworldwide.com)

[www.globalaccountingalliance.com](http://www.globalaccountingalliance.com).

Chartered Accountants' Hall  
Moorgate Place, London  
icaew.com

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