Grant Thornton

An instinct for growth™

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Dear Mr Conway

De-regulatory changes for Limited Liability Partnerships (LLPs) and Qualifying Partnerships

Grant Thornton UK LLP (Grant Thornton) welcomes the opportunity to comment on the consultation issued by the Department for Business, Innovation and Skills (BIS) on the proposed de-regulatory changes for LLPs and Qualifying Partnerships.

Support for Government's approach

We supported the Government's overall approach to implementing the EU Accounting Directive. That approach prioritised the need for the regulatory framework in the United Kingdom to reflect properly the needs of a wide range of users of financial information, whilst also ensuring that any related burden imposed on business, and smaller companies in particular, is both necessary and appropriate.

We continue to support, where appropriate, additional steps to further reduce the financial reporting burden so that UK businesses can focus on growth, irrespective of the legal structure of an entity. We therefore strongly support the proposals to simplify the financial reporting requirements for smaller LLPs, as well as the extension of the micro-entity regime to LLPs and qualifying partnerships in a manner that is similar to recent changes for companies.

In summary, we believe that the reporting framework for companies, LLPs and qualifying partnerships should be fully aligned where this is possible under the law. Significant differences in reporting frameworks for companies, LLPs and Qualifying Partnerships going forward would cause considerable difficulty and confusion.

Narrative reporting

We note that the narrative reporting requirements for LLPs and companies are significantly different.

The concept of an LLP has been with us in the UK for many years and, consistent with our support for general alignment of reporting frameworks, we also consider that there is merit in considering the relative benefits of aligning the narrative reporting requirements, such as the Strategic Report and Directors' Report.

We therefore recommend that BIS considers taking steps to align the statutory narrative reporting of LLPs with companies.

Timing of the changes

In our response on the consultation on the implementation of the EU Accounting Directive we recommended that BIS consulted on making related amendments to LLPs at the earliest opportunity.

Whilst we appreciate that companies had to take priority in terms of the implementation of the EU Accounting Directive, we do express some concern at the time taken to release this consultation and the planned timetable for its implementation. Those partnerships that would have chosen to apply simpler reporting requirements earlier will have missed out on cost saving opportunities. We therefore recommend that, if at all possible, the timetable for publication of the revised regulations (current target Summer 2016) is accelerated.

Detailed comments

Our detailed comments on the specific questions set out in the consultation, where not fully dealt with in this letter, are included in the response form enclosed.

Contact details

If you have any questions regarding this response, please contact me, Neil Parsons (t: 0121 232 5385;E: Neil.B.Parsons@uk.gt.com) or Andrew Vials (t: 020 7728 3199; E: Andrew.Vials@uk.gt.com).

Yours sincerely

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Department for Business, Innovation & Skills

De-regulatory changes for Limited Liability Partnerships (LLPs) and Qualifying Partnerships – response form

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Please indicate which of the following best represents the group you or the organisation you represent belongs to:

	Business representative organisation/trade body
X	Limited Liability Partnership
	Qualifying Partnership
	Central government
	Charity or social enterprise
	Individual
	Large company (over 250 staff)
	Legal representative
	Local Government
	Medium company (50 to 250 staff)
	Small company (10 to 49 staff)
	Micro company (up to 9 staff)
	Trade union or staff association
	Other (please describe)

If you are an LLP or Qualifying Partnership, are you an individual entity, part of a group or the parent of a group of entities?

	Individual entity
	Part of a group but not a parent
X	Parent of a group
	Not sure

If you are an LLP or Qualifying Partnership in the latest year of accounts you have available, what is your:

a. Number of employees – 4,461[1]

b. Annual turnover - £520.6 million[2]

c. Balance sheet total - £277.6 million [3]

If you are an LLP or Qualifying Partnership, do you currently prepare your own accounts or use an external accountant or book-keeper to prepare them?

X	Accounts prepared internally
	Use an external accountant
	Use a bookkeeper
	Not sure

[1] Group average number of full time equivalent full-time employees per financial statements for the year ended 30 June 2015
[2] Group turnover per financial statements for the year ended 30 June 2015
[3] Group fixed assets plus current assets per financial statements for the year ended 30 June 2015

The Government's Approach to Implementation

Question 1: Do you agree that the Government should maintain the alignment between the accounting and audit regulatory frameworks for LLPs and limited companies as implemented by the 2015 Regulations?

☒ Yes ☐ No ☐ Not sure

Please provide information in support of your answer.

Please see covering letter.

Question 2: What opportunities or challenges do you feel maintaining the reporting alignment between LLPs and limited companies will present for preparers and users of accounts? For example, you may wish to comment on any line items that should be retained if small LLPs have the choice of preparing an abridged balance sheet and profit and loss account where this has been agreed by all members of the LLP.

Please provide information in support of your answer.

General point on consistency of financial reporting

Aligning as much as possible the financial reporting requirements between Limited companies and LLPs is our much preferred stance.

As an example we do not believe there is any particular reason why the financial reporting requirements for a privately owned £200m turnover professional services Limited Company should (with the exception of certain elements of presentation) be different to similar-sized LLP that has the same business activities of that Limited Company.

Abridged accounts and formats of profit and loss account and balance sheet

In our response to question 15 on the consultation on implementing the EU Accounting Directive we expressed strong reservations as to whether abridged accounts showed a true and fair view. Since then FRS 102 has been revised and a new Section 1A to FRS 102 includes guidance that states that where abridged accounts are prepared then order to show a true and fair view additional notes may be required that disaggregate information on the balance sheet[4], disaggregate gross profit and also disclose turnover[5].

[4] Paragraph 1AA.2 to Appendix A to Section 1A of FRS 102

[5] Paragraph 1AB.2 to Appendix B to Section 1A of FRS 102

Members of an LLP that prepare abridged accounts will also need to ensure that those accounts also show a true and fair view. The above guidance in Section 1A of FRS 102 will help facilitate that.

On the basis that small companies can prepare abridged accounts we see no reason why abridged accounts cannot be prepared by small LLPs as long as all of the members of the LLP approve abridged accounts, and the resulting accounts show a true and fair view (after applying any necessary guidance from FRS 102).

Question 3: It is anticipated that the regulations will come into force in the summer of 2016. Would LLPs and Qualifying Partnerships find it helpful if the regulations permitted early adoption of the revised framework for financial years commencing on or after 1 January 2015 where these had not been agreed prior to the regulations coming into force?

☒ Yes ☐ No ☐ Not sure

Please provide information in support of your answer.

We agree with the effective date of the proposals.

As noted in our cover letter we do believe that where possible the timetable for the publication of amended LLP regulations should be accelerated.

The Proposals:

Question 4: Do you agree that the Government should introduce a micro-entity regime for LLPs which will allow LLPs that meet the eligibility criteria to access a less burdensome regulatory and administrative regime than the small LLPs?

☒ Yes ☐ No ☐ Not sure

Please provide information in support of your answer.

We see no reason as to why the micro-entity regime cannot be extended to LLPs that meet the eligibility criteria and therefore agree that the Government should extend the micro-entity regime to LLPs.

The reduced burden will be welcomed by LLPs in many instances. There will be instances where the members decide that a smaller framework is not appropriate to their needs and they will choose to apply a higher framework instead.

Question 5: Do you agree that the Government should introduce a micro-entity regime for Qualifying Partnerships which will allow Qualifying Partnerships that meet the eligibility criteria to access a less burdensome regulatory and administrative regime than small Qualifying Partnerships?

☒ **Yes** ☐ **No** ☐ **Not sure**

Please provide information in support of your answer.

We agree for the reasons as set out in the previous question.

Implications for the UK's Approach to Statutory Audit:

Question 6: Do you agree that all LLPs that have transferable securities admitted to trading on a regulated market in an EEA State should be required to file an audit report in respect of their accounts?

☒ ***Yes*** ☐ ***No*** ☐ ***Not sure***

Approach to statutory audit

Any requirements regarding the determination of which LLPs requires a statutory audit should be as consistent as possible with the requirements that apply to companies.

Additional comments on narrative reporting and a consequential effect on the proposed approach to statutory audit.

We note that paragraph 8.9 of the consultation document states:

"The changes made by the Government to the Audit report for companies as part of the implementation of the Accounting Directive related to the auditor's report on the company's "narrative report". They affected the audit report on the strategic report and directors' report under section 496 of the Companies Act; and the audit report on the corporate governance statement under section 498. As there is no comparable framework to this applied to LLPs we do not intend to make any changes on the audit report at this stage."

We consider that there is merit in considering the relative benefits of aligning the narrative reporting requirements, such as the Strategic Report and Directors' Report.

We recommend that BIS considers taking steps to align the statutory narrative reporting of LLPs with companies.

Section 9. Costs and Benefits of the proposed reforms:

Question 7: What one-off or recurring costs and benefits to LLPs, do you see arising from updating the reporting regime for LLPs? Please describe and if possible provide evidence of the scale of the identified costs and benefits.

Alignment of the reporting requirements for companies and LLPs will secure the following continuing benefits:

- *where group's structures includes both LLPs and companies (which is often the case) consistent reporting requirements will reduce reporting costs overall, for example the on-going costs of training preparation*
- *where the minimum small reporting requirements are applied by a small LLP the overall cost of financial reporting will be reduced (although we do not see that preparing abridged accounts will yield further benefits)*
- *some smaller LLPs will become audit exempt as a result of the increased reporting thresholds*

The scale of the identified costs and benefits will differ between LLPs and therefore we have not sought to quantify the costs or any particular one-off costs.

Question 8: How will your organisation familiarise itself with the update of the LLP reporting regime and the introduction of a micro-entity regime for LLPs and Qualifying Partnerships? Please provide details of who will be involved, how long you expect this task will take them and data on pay levels of those involved (if possible).

In terms of the update of the LLP reporting regime we will consult with our own internal financial reporting technical team. We do not believe that there will be a significant cost to this given that we believe that there will be a very limited impact on our financial reporting.

Question 9: What impact do you believe the reduction in the number of mandatory notes for small LLPs will have on your organisation? Please describe and (if possible) provide evidence of the size of this impact.

There will be no impact at group level due to the fact that we are a large organisation. There might be some impact in respect of LLP subsidiary undertakings that qualify as small but we do not believe this will be of significance.

Question 10: If you are an LLP, do you believe your organisation would be likely to take advantage of the flexibility to prepare an abridged balance sheet and an abridged profit and loss account?

☐ Yes ☒ No ☐ Not sure ☐ Not applicable

Please provide information in support of your answer.

At group level it is not possible to prepare abridged accounts. We are unlikely to prepare abridged accounts for small LLP subsidiaries where the cost of their preparation exceeds any benefits.

Question 11: What one-off or recurring costs and benefits do you see arising from a micro-entity accounting regime for LLPs and Qualifying Partnerships?

Please describe the costs and benefits to these entities and others, and if possible provide evidence of the size of the identified costs and benefits.

A micro-entity accounting regime for LLPs and Qualifying Partnerships will secure the following benefits:

- LLPs that meet the definition of a micro-entity will clearly benefit from a significant reduced cost in financial reporting when choosing to apply the micro-entity regulations

The following one-off costs may arise on applying a micro-entity regime for the first time:

- changes to accounting systems
- changes to templates for statutory reporting
- training costs

We believe that the reporting benefits will outweigh the costs in the longer term but have not quantified this.

Question 12: What proportion of eligible LLPs and Qualifying Partnerships would you expect to take advantage of the micro-entity regime? Please provide supporting evidence for your view.

Whether an LLP or Qualifying Partnership takes advantage of the micro-entity regime wholly depends on the nature of the activities of the partnership, the funding of the partnership and the reporting needs of the partners (for example how profits are determined).

A need for simplicity might benefit certain partnerships. However ,we cannot provide any accurate assessment of the proportion of partnerships that are likely to take advantage of the micro-entity regime.

BIS/15/631/RF