

AUDIT AND AUDIT EXEMPTION

The term “audit” is often misused. Very often business refer to having their accounts “audited” or banks ask for “audited” accounts, but more often what is meant is accounts prepared and certified by a Qualified Accountant.

In accounting terms “audit” refers to having accounts subjected to a higher level of scrutiny than mere professional preparation and certification. For example in most cases when preparing accounts the accountant can accept the directors valuation of stock, or the companies own list of debtors and creditors (looking out, of course, for obvious errors and anomalies), however if accounts are to be audited then the auditor must seek independent evidence to confirm such figures.

In the past, audits were compulsory for all Limited Companies and were seen as the ‘cost’ companies had to pay for the privilege of limited liability. Audits provide reassurance to shareholders, lenders, and creditors that the annual accounts are reliable. However, the cost for small companies often seemed out of all proportion to the benefits.

As part of the drive to free businesses of unnecessary ‘red tape’, most small companies are now exempt from audit. The exemptions apply if:

- turnover less than £5.6m
- gross assets less than £2.8m (gross assets are the total of fixed and current assets on the balance sheet)
- average number of employees less than 50

For financial years commencing after 6 April 2008, the first two thresholds change:

- turnover less than £6.5m
- gross assets less than £3.26m (gross assets are the total of fixed and current assets on the balance sheet)

Unfortunately, small companies still have to produce full statutory accounts for their shareholders and for HMRC.

Other qualifying conditions

Not all small companies come within the audit exemption provisions because there are criteria other than turnover that also have to be considered. In particular, public companies and companies carrying on particular types of business, such as insurance broking and financial services, also remain subject to audit.

Shareholders can require that an audit is carried out, for example if they are not involved in the day-to-day running of the business and require reassurance that their investment is being properly looked after.

Generally there is no requirement for sole traders or partners to have an audit, regardless of their size, however some aspects of the accounts for solicitors or surveyors need to be audited, and sometimes business in regulated sectors like financial services.

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