UK Audit Requirements

What is an audit?
The objective of an audit is to allow the auditors to form an opinion on the financial statements of a company.

In order to reach an audit opinion the auditors will:
- Carry out procedures to obtain audit evidence which will be used to provide reasonable assurance that the financial statements are free of material misstatement.
- Ensure that the financial statements have been prepared in accordance with the relevant legislation & accounting standards.

Who needs an audit?
A company’s annual accounts for a financial year must be audited unless the company:
- Is exempt from audit by meeting specific financial thresholds, or
- Is exempt from audit as a subsidiary company with an EEA parent who guarantee the subsidiary & make this guarantee and their own consolidated financial statements available on public record in the UK,
- Is exempt from the requirements as a non profit making company subject to a public sector audit.

For audit exemption a company must qualify as small, or have qualified as small in the previous year & therefore be in a year’s grace.

The financial criteria for assessing if a company is small are that two of the following conditions must be met:
- Turnover of the company must be less than £10.2 million;
- Gross assets of the company must be less than £5.1 million;
- Employees of the company must be less than 50.
If the company is part of a group then the group as a whole must meet the above criteria.
Additionally, the company must not be ineligible for any part of the year (PLC incorporated under UK Companies Act, banking and insurance company, etc., listed under CA 2006 s384);
In order to qualify for exemption the company must not be part of a group that includes an ineligible company under the previous point. (NB A foreign registered PLC does not remove a company’s exemption as UK Company Law specifies UK PLC’s only.)
Even if a company is exempt due to the above an audit may be required if members with 10% of a class of shares request an audit.

The auditors of a company:
Have a right of access at all times to the company’s books, accounts and vouchers (in whatever form they are held), and
May require an officer or employee, or anyone accountable for any of the company's books, to provide information or explanations as are thought necessary for the performance of the auditors’ duties.
The audit does not relieve the directors of any of their responsibilities as they are still responsible for the preparation and presentation of the financial statements. It is not the auditors’ function to prevent fraud and/or error, this is the responsibility of the directors.

How to prepare for a cost effective audit?
There are a number of things that can be done to ensure that an audit runs as efficiently as possible.
Firstly, make sure that all accounting staff are available during the time that the auditors are on site with you.
Secondly, below is a summary of some of the main documents to be prepared in advance of the audit. If the documents are all readily available, disruption to your staff members during the audit will be minimised:
- All primary accounting records
- Diagram showing the structure & ownership of the company/ group of companies
- Year-end bank reconciliation & statements available for the entire period for all bank accounts
- Breakdown of all balance sheet amounts with invoices to evidence items such as fixed asset additions, prepayments & accruals
- Aged debtors’ and creditors’ listing
- Wages records and P11D returns
- Stock reports
- All hire purchase and leasing agreements
- VAT returns and workings
- Copies of all meeting minutes held during the year and details of any changes in share ownership

Disclaimer:
This note does not contain a full statement of the law and it does not constitute legal advice. Please seek legal advice if you have any questions about the information set out above.

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