



AVEY OF LONDON

Accounting | Financial Reporting

AUDIT REQUIREMENTS AND EXEMPTION CRITERIA

APRIL 2016
AVEY OF LONDON
www.aveyoflondon.co.uk

This guidance is designed to alert to an important issue of general application. It is not intended to be a definitive statement covering all aspects of the related legislation. It is only a brief summary and no action should be taken without consulting the detailed legislation or seeking professional advice.

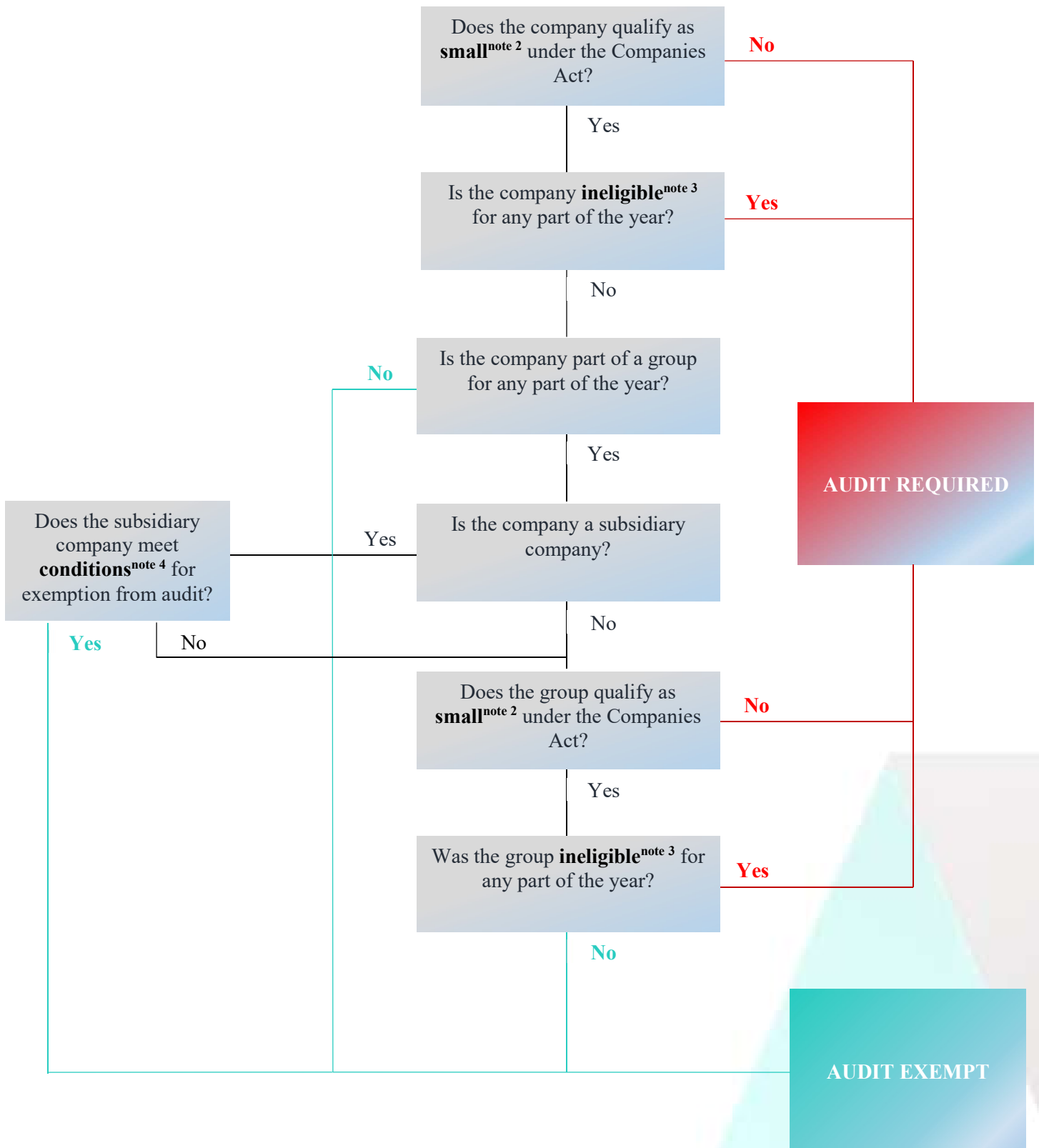
Should you require further information or would like to discuss any specific elements of the relevant legislation you can contact AVEY of London using details below and we will be happy to assist.

Tel: 01707 691 783

Email: info@aveyoflondon.co.uk

No responsibility for any person acting or referring to act as a result of any material contained in this guidance can be accepted by AVEY of London.

AUDIT EXEMPTION FLOW CHART



NOTES:

1. REQUIREMENTS FOR AUDITED ACCOUNTS

[CA 2006 s475/s476]

A company's annual accounts for a financial year must be audited unless the company is exempt from audit:

- a) as a small² company [CA 2006 s477/s382/s383];
- b) as a qualifying subsidiary⁴ [CA 2006 s479A];
- c) as a dormant⁵ company [CA 2006 s480];
- d) as a non-profit* company subject to public sector audit [CA 2006 s482].

**non-profit companies and charities are not considered in this guidance.*

A company that qualifies for audit exemption must include the following statement by the directors in its balance sheet above the signature:

- a) the members have not required the company to obtain an audit of its accounts for the year in question in accordance with CA 2006 s476; and
- b) the directors acknowledge their responsibilities for complying with the requirements of the Companies Act 2006 with respect to accounting records and the preparation of accounts.

Right of members to require audit

The members of a company that would otherwise be entitled to exemption from audit may require it to obtain an audit of its accounts. The notice must be given by members representing not less in total than 10% of the company's issued share capital (any class of it).

2. COMPANIES/GROUPS SUBJECT TO THE SMALL COMPANIES REGIME

[CA2006 s382/s383]

A company qualifies as small if the qualifying conditions are met in the current and the preceding financial years.

A parent company qualifies as a small company if the group headed by it qualifies as a small group. A group qualifies as small if the qualifying conditions are met in the current and the preceding financial years.

Qualifying conditions – must satisfy two of the following:

Company	Financial year ends on or after 1 October 2012	Accounting periods beginning on or after 1 January 2016
Total assets	£3.26m	£5.1m
Annual turnover	£6.5m	£10.2m
Average number of employees in the year	< 50	< 50

Group	Financial year ends on or after 1 October 2012	Accounting periods beginning on or after 1 January 2016
Total assets	£3.26m net (£3.9m gross)	£5.1m net (£6.1m gross)
Annual turnover	£6.5m net (£7.8m gross)	£10.2m net (£12.2m gross)
Average number of employees in the year	< 50	< 50

- If turnover is not a year the maximum figures for the turnover must be prorated.
- Total assets means all assets shown on the balance sheet before liabilities are deducted.
- 'net' means after any set-offs and other adjustments made to eliminate group transactions, 'gross' means without those set-offs and other adjustments.
- The group means parent and subsidiaries (not associates or joint ventures) including any overseas companies.

3. INELIGIBLE GROUPS & COMPANIES EXCLUDED FROM SMALL COMPANIES REGIME

[CA2006 s384]

The small companies regime does not apply to:

- a public company;
- a company that is an authorised insurance company, a banking company, an e-money issuer, a UCITS management company, or carries on insurance market activity; or
- a member of an ineligible group.

A group is ineligible if any of its members is:

- a traded company;
- a body corporate whose shares are admitted to trading on a EEA regulated market;
- a person (other than a small company) who has permission under Part 4 of the Financial Services and Markets Act 2000 (c. 8) to carry on a regulated activity;
- a small company that is an authorised insurance company, a banking company, an e-money issuer, a UCITS management company, or a person who carries on insurance market activity.

Changes introduced following UK implementation of the EU Accounting Directive

Following the UK implementation of the new EU Accounting Directives, the Part 2 of the Regulations amends the Companies Act 2006.

Regulation 4(3) and (4) raises the thresholds which determine when a company or group qualifies as 'small' (see 2 above). Regulation 4(5)(b) amends s384(2)(a) with the effect that a company that is a member of a group of companies one or more of which is **admitted to trading on an EEA regulated market** (such as the London Stock Exchange) does not qualify as "small". The former s384(2)(a) had the effect that a company that was a member of a group of companies one or more of which was a **public company** did not qualify as "small".

The regulations apply to accounting periods beginning on or after **1 January 2016**. While the **early adoption** is permitted, the regulations do not permit an exemption from audit if the company would not have been so exempt had the amendments not had effect in relation to that year.

4. **SUBSIDIARY COMPANIES: CONDITIONS FOR EXEMPTION FROM AUDIT**

[CA2006 s479A/s479B/s479C]

A company is exempt from audit requirements if:

- a) it is itself a subsidiary undertaking; and
- b) its parent undertaking is established under the law of an EEA State.

Exemption is conditional upon compliance with **all** of the following conditions:

- a) **all members** of the company **must agree to the exemption** in respect of the financial year in question;
- b) the parent undertaking **must give a guarantee** in respect of that year;
- c) the company **must be included in the consolidated accounts** of the parent undertaking in accordance with the provisions of the Seventh Directive (83/349/EEC), or international accounting standards;
- d) the parent undertaking **must disclose in the notes to the consolidated accounts** that the company is exempt from the audit of individual accounts by virtue of the s479 CA 2006.
- e) the directors of the company must deliver to the registrar:
 - i. a written notice of the agreement referred to in (a) above;
 - ii. the guarantee statement referred to in (b) above;
 - iii. a copy of the audited consolidated accounts and annual report of the parent referred to in (c) above.

A company is not entitled to the exemption if it is an ineligible company i.e. quoted, insurance, bank, e-money issuer etc. (refer to 3 above).

Parent undertaking declaration of guarantee

In order for a subsidiary company to qualify for audit exemption a guarantee must be given by a parent company that:

- a) the parent undertaking guarantees all outstanding liabilities to which the subsidiary company is subject at the end of the financial year to which the guarantee relates, until they are satisfied in full, and
- b) the guarantee is enforceable against the parent undertaking by any person to whom the subsidiary company is liable in respect of those liabilities.

Form **AA06** (downloadable from Companies House) can be used as a statement of guarantee by a parent undertaking of a subsidiary company.

5. **DORMANT COMPANIES**

[CA 2006 s480/s481]

Dormant companies are exempt from audit unless they are companies that are unable to take advantage of the small companies regime or are parent companies required to prepare group accounts.