

Audit Exemption

The annual turnover threshold which exempts most companies from a statutory audit is £6.5 million.

Historically, audits 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. Companies House confirms that a very high proportion of the complaints it receives are about the credibility of filed accounts from audit-exempt companies.

However, small companies still have to produce full statutory accounts, so there remains scope for cutting more 'red tape'. The accounting requirements for smaller companies remain under review.

Not all companies with turnover under £6.5 million come within the new audit exemption provisions, because there are criteria other than turnover. In particular, companies not classed as small or whose total assets exceed £3.26 million must still have an audit. Public companies and those carrying on particular types of business, such as those coming within the scope of the Financial Services and Markets Act 2000, will remain subject to an 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.

Small and medium-sized company thresholds

A small company is normally one that meets two or more of the following criteria for the current and previous year:

- Turnover not more than £6.5 million
- Balance sheet total not more than £3.26 million
- Not more than 50 employees

A medium-sized company will be one that meets two or more of the following criteria:

- Turnover not more than £25.9 million
- Balance sheet total not more than £12.9 million
- Not more than 250 employees

Limited Liability Partnerships (LLPs)

Similar audit exemption rules apply to LLPs.

Audit exemption developments

The Government has signalled its intention to amend the Companies Act to bring small company audit rules in line with the EU minimum in 2012. This means that certain small companies who still have to have independently audited accounts will no longer have to do so. For even smaller companies, the Government

4A Printing House Yard, London E2 7PR T: 0207 613 2586 E: mail@armco.co.uk

will push for exemptions in European rules to remove the requirement to produce specific accounts for Companies House in addition to those for tax purposes.

The way forward

The existence of audit exemption makes it more attractive for sole traders and partnerships to consider setting up a company to gain the protection of limited liability. However, there are tax consequences of such a change and it is important to seek our advice on these matters.

Do call us if you would like further help or advice on this subject.