Oury Clark Quick Guides:

Oury Clark

UK Audit Requirements

General: F22

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

What is an audit?

An examination of the books and records of the company to form an opinion as to whether the financial statements prepared from those books and records give a true and fair view of the results of the company for that financial year and of the balance sheet at the year end.

- Includes opinion on notes to the financial statements and cash flow if needed
- Form an opinion on going concern
- Have to report if inconsistencies between Directors report or Strategic report and our knowledge
- Report on issues with other matters

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 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 and 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 group must be less than £10.2 million;
- Gross assets of the group must be less than £5.1 million;
- Employees of the group must be less than 50.
- If the company is part of a worldwide group of companies, you must consider all companies in the entire group which are under the same control when assessing the criteria.
- Additionally, the company must not be ineligible for any part of the year (PLCs, banking, e-money issuer and insurance companies, etc., listed under CA 2006 s384).

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ineligible companies under CA 2006 s384.

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.

In order to reach an audit opinion the auditors will:

- Carry out procedures to obtain audit evidence to provide them with 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.

Assess whether the business is a going concern.

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 all staff are available during the time that the auditors are scheduled to do your audit. Agree a timetable for the audit with some capacity in advance to gather information ready for audit.

You must deliver the information asked for as soon as possible and if deadlines are set adhere to those. The information provided should be final. Get sign off from the board on the figures before providing them.

A small change to the numbers can result in a huge amount of additional audit work going back and updating the audit file.

Clearly organise information provided, ideally utilising the references provided with the request.