

## Small companies – choices for your financial statements



**S**ome companies are not required by law to have an audit. Audit exemption is available for certain small, dormant and subsidiary companies meeting strict criteria, and the government is considering allowing more companies to be exempt from statutory audit.

If a company does take advantage of audit exemption, the directors of the company may nevertheless wish to have the comfort of a report from independent accountants on their accounts.

**Research carried out by Cardiff Business School in 2012 found that small companies without an audit were twice as likely to file amended accounts due to errors discovered after filing.**

As a director or business owner, it is therefore often desirable to get a second, expert, opinion on the activity of your finance function, whether you are part of the finance function and want an independent review of how it is working, or you would like assurance that your internal finance team is operating effectively.

### Audit

An audit is the highest level of assurance available, and, for companies over a certain size (unless applying certain exemptions available to subsidiaries), an audit is required by law.

A statutory audit has a number of advantages including:

- providing greater comfort to banks, suppliers and potential investors regarding the financial performance;
- audited financial statements may significantly improve the credit rating of the business; and
- peace of mind, as an audit provides the highest level of assurance that the company's financial statements are free from material error.

The audit work is tailored to the risks in the business. It will provide you with peace of mind that the business is being well run and will highlight any significant deficiencies.

Furthermore, at the conclusion of the audit, the auditors communicate with those charged with governance of the entity their observations and recommendations to help you improve your financial systems, policies and processes.

### Assurance options

Smaller companies and some subsidiaries may be able to take advantage of audit exemption, but may still want an independent report on the financial statements. There are several options available and these are described in the table overleaf

**More information on accounting by small companies, including details on audit exemption and options available, can be found in the Buzzacott and CCH Book "Preparing Company Accounts". The latest edition, authored by Buzzacott's Katie White and Mark Worsey, covers the FRSSE and Accounting by Micro-Entities.**

### Audit Exemption

The rules for establishing if your company is audit exempt can be complicated, especially if the company is a member of a group. If you would like more information on the availability of audit exemption, please get in touch with your usual Buzzacott contact.

Option	What does the report say?	When is it best?	Assurance
Audit	The report gives a positive opinion that the accounts are true and fair, as well as commenting on other matters required by the law.	When legally required or requested by the members. When third parties, such as purchasers or lenders, require or prefer audited accounts. For the highest level of peace of mind that an independent auditor has reviewed your accounts and systems.	Highest
Assurance review	The report gives assurance that nothing came to the attention of the reviewing accountants that the accounts do not give a true and fair view.	When you would like some assurance but would prefer a higher level review rather than rigorous audit tests agreeing information to supporting documents.	Medium
Agreed upon procedures	The form and content of the report can be as detailed as you agree with the independent accountant.	When you would only like to focus a review on certain areas, such as stock, estimates or work in progress, or to just review the adequacy of disclosures in the accounts.	
Accounts preparation and compilation report	The report states that the accounts have been prepared from information provided to the accountant. The report does not give any opinion and the accountant does not check the accuracy or completeness of the information.	When you want confirmation that the accounts meet the relevant disclosure requirements but do not need the information itself to be reviewed.	Low
Nothing	N/A	You are confident that the accounts include all the necessary disclosures and information. The accounting records are in good order. No third parties are looking for independent assurance over the accounts.	None

## Get in touch

If you would like to discuss the options available for your company, please get in touch with your usual Buzzacott contact. Alternatively, please contact:

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