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Audits and accounts

A guide to keeping accounts and how an audit can benefit your business.

An audit is an official inspection of a company or organisation's accounts by an independent body.

A company can choose to be audited in order to prove to its investors or shareholders that its accounts are sound.

An external audit should also determine whether all financial reporting is in accordance with current accounting standards and legislation.

If a company ensures that its accounts, reporting and record keeping are in accordance with legal requirements, an audit should not be too taxing a process.

Statutory accounts

All companies irrespective of their size must file statutory accounts each year.

They are prepared using the information found in a company's financial records at the end of each financial year.

All companies in the UK are legally obliged to send copies of their statutory accounts to:

- their shareholders
- anyone who can go to their annual general meeting
- HMRC
- Companies House (unless they send abbreviated accounts).

All statutory accounts must include a balance sheet that shows the value of everything the company owns, what it owes and how much it is owed.

They should also include:

- a profit and loss report showing the company's sales, costs and the profits or losses it has made over the financial year
- a director's report
- notes about the accounts.

Some companies will also have to include an auditor's report.

Statutory accounts must meet UK GAAP or International Financial Reporting Standards.

Abbreviated accounts

Some small companies can send abbreviated accounts to Companies House consisting of a signed balance sheet and any notes. The balance sheet must have the name of a director printed on it and be signed by a director. Companies that send abbreviated accounts will still need to send statutory accounts to HMRC and company members.

A company is considered small if it meets 2 of the following conditions:

- it has a turnover of £10.2 million or less
- there is less than £5.1 million on its balance sheet
- it employs 50 or fewer people.

Small companies can also qualify for an exemption that means their accounts do not need to be audited and they can choose whether to send a director's report.

Micro-entities can prepare simpler accounts, send only a balance sheet to Companies House and benefit from the exemptions small companies are entitled to.

To be defined as a micro-entity, a company must meet 2 of the following criteria:

- have a turnover of £632,000 or less
- have £316,000 or less on the balance sheet
- have 10 or fewer employees.





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Record keeping

It is a legal requirement for a company to keep and maintain accurate financial records.

If a company fails to keep accounting records it can be fined up to £3,000. Any discrepancies which come to light when the company is audited might also lead to further investigation by HMRC and Companies House.

The accounting records which a company must keep are as follows:

- all money spent and received
- all assets owned by the company
- debts the company is owed or owes
- stock owned at year end
- all goods purchased and sold
- who goods were purchased from or sold to, unless the business is a retailer.

These records must be kept for a minimum of 6 years (though there are some cases where they will need to be kept for longer).

The company must immediately notify their Corporation Tax Office and try to accurately recreate them if records are destroyed.

Penalties and deadlines

If a private limited company is late filing annual accounts with Companies House it will have to pay a penalty. The penalties are on a sliding scale and are doubled if a company files late 2 years in a row:

| Timescale | Penalty |
|--------------------|---------|
| 1 month | £150 |
| 1 - 3 months | £375 |
| 3 - 6 months | £750 |
| More than 6 months | £1,500 |

A company can appeal a penalty but must give a credible reason for filing late and prove that circumstances beyond anyone's control e.g. a fire or flood destroyed them a few days before filing. The government will only accept circumstances that are deemed 'exceptional' so delays in postal delivery, illness and being unfamiliar with the process will not be considered.

Reasons for being audited

All private limited companies are subject to annual statutory audits unless they meet 2 of the following rules:

| | Accounting periods beginning on or after 1 January 2016 | Accounting periods beginning before 1 January 2016 |
|---------------------|---|--|
| Turnover | Less than £10.2 million | Less than £6.5 million |
| Total assets | Less than £5.1 million | Less than £3.26 million |
| Number of employees | 50 or fewer | 50 or fewer |

Some companies that are not legally required to be audited choose to undergo the process so that they know that their accounts are accurate and their financial reporting is in accordance with Companies House regulations. Other companies are audited because it is required by their backers.

A company may also be subject to an audit if the authorities or regulators suspect that there may be some issues or problems with the accounts. The audit process for either situation is essentially the same.

In addition some companies are required to have an audit (even if they meet the exemption criteria). This includes:

- the company is involved in banking or issuing e-money
- it's a public company (that's not dormant)
- if a shareholder (or group of shareholders) who owns at least 10% of the shares requests an audit.

Contact us today to talk about audit criteria.

The audit process

Audits are usually carried out by a qualified accountant or accountancy practice. The aim of the auditor is to ensure that the accounts and financial statements issued by a company are accurate and compliant with UK GAAP.

A statutory audit will check certain aspects of a company's financial reporting to ensure that they meet government guidelines or requirements from regulatory authorities where applicable and UK GAAP code.

The auditor will forensically examine a company's accounts and financial records and statements.

There are 4 stages to an audit:

- planning and designing the audit approach
- testing the company's internal financial controls and evaluating the company's recording of transactions
- analysing or testing a company's financial records to ensure that the numbers add up
- producing an auditor's report.

The auditor will ensure that they understand the company's industry, regulators, accounting policies, objectives and strategies, and business risks before commencing the audit.

The auditor will check financial records, receipts, invoices, bank statements and compare financial information with non-financial company information to check consistency. The company must make all of these records available to them.

The auditor's final report will include the auditor's conclusion as to whether the company's financial statements are accurate and fairly presented.

The auditor's report will be signed and dated before it can be filed with Companies House.

Contact us to discuss any aspect of audits or keeping accounts.