MCBRIDES
CHARTERED ACCOUNTANTS

Nexus House
2 Cray Road
Sidcup
Kent DA14 5DA

T: 020 8309 0011
F: 020 8309 7879
E: info@mcbridesllp.com
W: www.mcbridesllp.com

Audit Exemption

Building on the changes introduced in 2012, the UK Government was required to implement the EU Accounting Directive 2013/34/EU into UK law no later than for periods beginning on or after 1 January 2016. The Directive aims to simplify the accounting requirements for small companies and makes a number of other changes to the accounting and reporting requirements for companies. Amongst other things a new standard, FRS 105, deals specifically with micro-entity accounting. Micro-entity requirements are incorporated into the Small Companies and Groups Accounting Regulations.

The relevant Regulations came into force on 6 April 2015, and apply to financial years beginning on or after 1 January 2016. Earlier application for financial years beginning on or after 1 January 2015 is permitted. They do not apply to LLPs and the LLP regulations have not as yet been updated.

One of the main changes in the 2012 rules was to bring the definition of companies not requiring an audit into line with the definition of small companies. The small and medium-sized thresholds for accounting purposes have been increased as follows:

	Small		**Medium**	
	Before: (gross)	**After: (gross)**	**Before: (gross)**	**After: (gross)**
Turnover	<£6.5m (<£7.8m)	<£10.2m (<£12.2m)	<£25.9m (<£31.1m)	<£36m (<£43.2m)
Total Assets	<£3.26m (<£3.9m)	<£5.1m (<£6.1m)	<£12.9m (<£15.5m)	<£18m (<£21.6m)
No of employees	<50	<50	<250	<250

Although the legislative changes enacted on 6 April 2015 will, as things stand, continue to link the audit exemption thresholds with the small company thresholds as shown above, the outcome of the government consultation on audit exemption limits has not yet been announced and it is still possible that the existing limits will be retained, thus severing the link between the audit and accounting thresholds. Responses to the consultation on raising audit thresholds were mixed. Companies which early-adopt revised company law are not permitted to use the raised thresholds for audit exemption purposes for periods beginning before 1 January 2016.

The current year tests were also expanded to include a ‘prior year’ rule. This allowed companies to exceed two or more of the limits in a year and remain small in size so long as they met two of the limits in the previous year and qualified as small in that year.

Not quite all small companies are automatically audit exempt. The Companies Act prohibits various types of company from taking either small company or audit exemptions. These include public companies, authorised insurance companies, banking companies and companies that carry on insurance market activity. There are a few other types of company (trade unions and employers’ associations) which, although they can be small, cannot take audit exemption.

10% or more (by number or value) of a company's shareholders still have the right to request that an audit is carried out, provided the proper process is followed. A company's articles of association may prescribe that an audit should be carried out. Other specialist sectors (such as charities) may require an audit under legislation other than the Companies Act.

Small groups

The 2012 rules introduced changes for group companies. Previously, if a group's aggregated turnover or balance sheet totals exceeded the limits, all member companies had to have an audit regardless of whether they individually qualified as small.

Now, if a group qualifies as small, by meeting two of the following (with a similar prior year rule as for individual companies):

- Annual turnover not more than £6.5 million net (£7.8 million gross) – these financial thresholds will rise to £10.2 million and £12.2 million respectively for financial years beginning on or after 1 January 2016.
- Balance sheet total (total assets) not more than £3.26 million net (£3.9 million gross) – these financial thresholds will rise to £5.1 million and £6.1 million respectively for financial years beginning on or after 1 January 2016.
- Not more than 50 employees

Any subsidiary qualifying as small in its own right may opt for audit exemption.

Gross figures are calculated by the simple addition of the amounts appearing in each company's accounts. Net figures are those after consolidation adjustments, such as the elimination of intra-group sales and balances. A group may qualify on the basis of either the net or gross figures.

Other groups

In addition to the changes for small companies and groups, subsidiaries of any size, which would previously have required an audit, can be exempt from audit as long as they meet qualifying conditions. These conditions include the requirement for the parent company to produce and file audited group accounts, and for the subsidiary to file a statement of guarantee for each relevant financial year. This statement commits the parent company as follows:

- 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
- The guarantee is enforceable against the parent undertaking by any person to whom the subsidiary company is liable in respect of those liabilities

Subsidiaries in this category and which are dormant throughout a financial year can opt not to prepare or file accounts, subject to the provision of a similar guarantee.

How can we help?

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