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Audit Exemption Thresholds

Over recent years the audit exemption criteria have been increasing. The latest increase to the audit exemption criteria has been in place for years that begin on or after 1 January 2016. Other changes announced in September 2012 had an impact on subsidiary companies

The purpose of this helpsheet is to highlight the thresholds and provide some further points for consideration to enable you to understand if you meet the exemption criteria and help you to decide how to react.

Small company exemptions

The audit exemption criteria for small entities were relaxed in 2012, the thresholds were increased in 2016 and are included in the table below:

	Thresholds		
	No of employees	Turnover	Gross assets total
	Not more than		
Small company	50	£10.2 m	£5.1 m
Small group	50	£10.2m net (or £12.24m gross)	£5.1m net (or £6.2m gross)

Note: Figures in brackets refer to the gross figures for the group before deducting inter-company items.

Previously, not all companies who met the small company criteria were automatically able to apply the exemption from audit. Whereas a company must meet two of the three thresholds for two consecutive years to qualify as small for accounting purposes, qualifying for the audit exemption was subject to a second hurdle; if a company was in excess of either the turnover or asset threshold in any year then they fell in to the statutory audit regime. This also applied to members of a group which may have qualified as small but breached the turnover or asset limits.

Changes in 2012 removed the second hurdle and brought the audit exemption criteria into line with the small company rules. So, for year ends on or after 1 October 2012, all companies qualifying as small and in a small group also qualify for audit exemption.

Small companies have the option of applying the audit exemption based on the thresholds set out. This gives directors more flexibility in deciding whether to apply the audit exemption after fully considering their particular circumstances in relation to the costs of the audit versus the benefits this service can provide.

Read on to view some of the other things that you might benefit from considering before you decide whether you should continue to have an audit.

Subsidiary companies

In addition to the exemption criteria changes, the September 2012 announcement also provided for most subsidiary companies and LLP's to be exempt from audit, irrespective of their size, if they meet certain conditions. The key condition being that the parent company guarantees their liabilities.

The parent company guarantee has not proved to be very attractive for most groups as the subsidiary's figures are likely to require auditing for inclusion in the consolidated accounts and the guarantee provides an additional level of exposure to the parent company.

Full details of the conditions, together with the details of the guarantee, are included in our supplementary appendices.

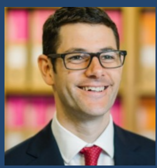
Wider considerations

You perhaps welcome the opportunity to choose whether it will be beneficial to have an audit, in which case you may find the following list useful in helping to ensure that you contemplate all of the wider issues before coming to a decision:

- Is there an audit requirement written into the company's articles of association?
- Are there any trustees or shareholders who are likely to expect an audit?
- What sort of relationships do you have with your bank and any creditors - are there any financial arrangements (now or in future) that dictate the need for an audit?
- How quickly is your company growing? If it is likely to breach the small company threshold anytime soon, the comparative figures in the accounts will need to be audited at some point to avoid a modified audit report.
- Do you (or any shareholders) plan to sell or exit the business in future? Maintaining the discipline of an audit now will enable you to provide decent financial records and information to any potential buyers in future and might be the difference between a successful or failed sale.

Of course every company is different and the decision about whether it will be beneficial to have an audit rests with the directors and any trustees or shareholders. Naturally we are more than happy to help you with your deliberations and you are welcome to get in touch with your usual Sagars contact at any time to talk things through.

If you have any audit exemption queries, please contact Kevin Hoult on 0113 297 6795 or send an email to k.hoult@sagars.co.uk



Audit exemption changes September 2012
Appendix

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479A Subsidiary companies: conditions for exemption from audit

1. A company is exempt from the requirements of this Act relating to the audit of individual accounts for a financial year if :-
   A. it is itself a subsidiary undertaking, and
   B. its parent undertaking is established under the law of an EEA State.
2. Exemption is conditional upon compliance with all of the following conditions:-
   A. all members of the company must agree to the exemption in respect of the financial year in question,
   B. the parent undertaking must give a guarantee under section 479C in respect of that year,
   C. the company must be included in the consolidated accounts drawn up for that year or to an earlier date in that year by the parent undertaking in accordance with
      (i) the provisions of the Seventh Directive (83/349/EEC)(d), or
      (ii) international accounting standards,
   D. the parent undertaking must disclose in the notes to the consolidated accounts that the company is exempt from the requirements of this Act relating to the audit of individual accounts by virtue of this section, and
   E. the directors of the company must deliver to the registrar on or before the date that they file the accounts for that year
      (i) a written notice of the agreement referred to in subsection (2)(a),
      (ii) the statement referred to in section 479C(1),
      (iii) a copy of the consolidated accounts referred to in subsection (2)(c),
      (iv) a copy of the auditor's report on those accounts, and
      (v) a copy of the consolidated annual report drawn up by the parent undertaking.
3. This section has effect subject to:-
   - section 475(2) and (3) (requirements as to statements contained in balance sheet), and
   - section 476 (right of members to require audit).

479B Companies excluded from the subsidiary companies audit exemption

A company is not entitled to the exemption conferred by section 479A (subsidiary companies) if it was at any time within the financial year in question:-

A. a quoted company as defined in section 385(2) of this Act,
B. a company that
   (i) is an authorised insurance company, a banking company, an e-money issuer, a MiFID investment firm or a UCITS management company, or
   (ii) carries on insurance market activity, or
C. a special register body as defined in section 117(1) of the Trade Union and Labour Relations (Consolidation) Act 1992 (c 52)(a) or an employers' association as defined in section 122 of that Act or Article 4 of the Industrial Relations (Northern Ireland) Order 1992 (S.I. 1992/807) (NI 5).

479C Subsidiary companies audit exemption: parent undertaking declaration of guarantee

1. A guarantee is given by a parent undertaking under this section when the subsidiary company delivers to the registrar a statement by the parent undertaking that it guarantees the subsidiary company under this section.
2. The statement under subsection (1) must be authenticated by the parent undertaking and must specify:-
   A. the name of the parent undertaking,
   B. if the parent undertaking is incorporated in the United Kingdom, its registered number (if any),
   C. if the parent undertaking is incorporated outside the United Kingdom and registered in the country in which it is incorporated, the identity of the register on which it is registered and the number with which it is so registered,
   D. the name and registered number of the subsidiary company in respect of which the guarantee is being given,
   E. the date of the statement, and
   F. the financial year to which the guarantee relates.
3. A guarantee given under this section has the effect that:-
   A. 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
   B. the guarantee is enforceable against the parent undertaking by any person to whom the subsidiary company is liable in respect of those liabilities.