

The Audit - should I keep it or lose it?

- **Assurance**

As a director of an independent company, an audit provides you with assurance by giving you increased confidence regarding:

- the reported figures
- the general financial position of the business
- the financial basis for making decisions
- the reliability of the accounting system and the information it produces
- the early identification of trends that could lead to future problems.

- **Credibility**

The more credible the financial information, the more useful it is. Adding an audit report to a set of accounts increases their credibility. This helps greatly when dealing with:

- banks and other lenders
- hire purchase and leasing companies
- suppliers of goods and services
- the Inland Revenue, Customs & Excise and other Government Agencies.

Some lenders may require an audit as a condition of any loan. Those companies taking advantage of the increased audit threshold must ensure that by not providing audited accounts they are not breaching banking covenants.

A track record of credible financial information could be a significant advantage in the future for finance raising, buying other businesses or in the sale of your business. It could help to avoid additional future expense.

- **Advice**

Our involvement enables us to understand your business and as a result provide quality advice in areas such as:

- improvements to the accounting process
- the tax position and tax planning opportunities
- operational and managerial issues such as contractual arrangements, waste management etc.
- improvements in systems and controls
- complying with government regulations
- general financial issues such as cutting the cost of borrowing, cash flow management etc.
- benchmarking your business against others to identify any changes required and the direction in which the business should be going.

The benefits of the close involvement of an independent financial expert should not be underestimated. Our presence via the audit process provides support to the management team.

- **Fraud**

Fraud continues to be an ever-present part of business life. Whilst the audit cannot guarantee to detect all fraud it is an important tool in helping its prevention. An audit will:

- act as a deterrent to the potential fraudster
- help to detect fraud which has a significant effect on the accounts
- provide positive advice where controls and financial systems need to be improved to prevent fraud.

The work of an external auditor is an important part of the control environment established by management. Without an audit you would need to consider how the level of control would be maintained.

- **True and fair view**

Company accounts will need to comply with all the requirements of Accounting Standards and Company Law. This involves both time and expertise. Companies House will continue to reject accounts that are not compliant.

- **Taxation**

Tax Law never seems to become any simpler! Without an audit we would need to spend time ensuring that:

- the information submitted to the Inland Revenue is reliable
- the company is not breaking any of the ever widening tax requirements
- the company and its directors conduct their affairs in the most tax efficient manner.

Costs of an audit

There are of course costs involved in the audit process and correspondingly there are savings to be made in dispensing with an audit. The degree to which costs may be saved depends upon a number of factors, as the audit fee only represents part of our total charges.

How much relates to the audit will depend upon the individual circumstances of your company. We will, of course, discuss potential cost savings with you before you make your decision. Indeed, when considering the factors above you may value some aspects of “audit” work higher than others. As mentioned earlier, these new rules enable us to deliver a more tailor-made service than ever before.

As well as the proposed increase in the audit exemption limits the criteria for determining companies size as small or medium will also be increased. This could mean reduced disclosure requirements and the ability to file full abbreviated accounts.

	Current small company limits	New small company limits
Turnover not more than	£2.8m	£5.6m
Balance sheet total not more than	£1.4m	£2.8m
Number of employees not more than	50	50

	Current medium-size company limits	New medium-size company limits
Turnover not more than	£11.2m	£22.8m
Balance sheet total not more than	£5.6m	£11.4m
Number of employees not more than	250	250

The qualification conditions for both small and medium-sized groups and the audit exemption threshold for small groups will also be increased pro rata.