

The benefits of retaining an audit

Auditing gives you an opportunity to understand your business better and helps us to give useful, timely advice.

Qualifying for audit exemption

The Companies Act 1985 (Accounts of Small and Medium Sized Enterprises and Audit Exemption) (Amendment) Regulations 2004 increased the thresholds for audit exemption of small companies and small groups (with some exceptions) as follows:

	Small Companies	Small Groups
Turnover not more than	£5.6m	£5.6m (net) £6.72m (gross)
Balance sheet total not more than	£2.8m	£2.8m (net) £3.36m (gross)

(Where net is after eliminating inter company transactions within the group and gross is before eliminating such transactions)

These revised thresholds are effective for accounting periods ending on or after 30 March 2004. Please note that minority shareholders with at least 10% of the voting rights of the company have the power to require an audit to be undertaken.

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- Compliance with the terms of agreements with banks, shareholders, suppliers or customers which may require the company financial statements to be audited. These agreements should be reviewed to establish whether there are such requirements.
- For a growing business that is likely to exceed the threshold

limits in the year following that of an audit exemption, the cost of undertaking the audit the following year could be more expensive than retaining the audit.

- Banks can require audited financial statements to be provided when considering whether to finance a company. Banks may decide that audited financial statements are a condition of lending.
- Suppliers can require audited financial statements to be provided when assessing the credit worthiness of a company.
- Audited financial statements can lend credibility to the financial status of your business when provided to third parties and demonstrates your willingness to submit your financial affairs to independent scrutiny.
- An annual audit provides the directors with confidence on the accuracy of the reported financial figures. It also acts as a deterrent to fraud and financial mismanagement.
- An audit provides management with a report on any potential weaknesses in the financial controls of the company identified in the course of the audit, together with recommendations for improving those controls and hence the risk profile of the company.
- An audit should be retained where you are intending to sell your business within the next 3 to 5 years. The availability of audited financial statements will assist with the due diligence process in any potential purchase.

CONTACT

If you would like to discuss our audit services further please contact **Kathryn Moran** on the number below or email kmoran@wingrave.co.uk

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