

## Guidance Note: Accounts & Audit

This guidance note is designed to assist companies in the preparation of their accounts and specifically the legal requirements.

### **Preparing the annual accounts and reports**

All limited and unlimited companies must prepare accounts. Accounts must be prepared in order to comply with the Companies Act 2006. Unless otherwise stated this guidance note deals with the requirements for small companies (as defined by the Companies Act 2006).

The preparation of accounts is the duty of the directors. There is no requirement for companies to use a professional accountant to prepare accounts. However, if directors are uncertain about the requirements, they should consider seeking professional advice.

Accounts must be prepared for each financial year. For an individual company (as opposed to a group preparing accounts) companies must prepare a balance sheet, profit and loss account and notes to the accounts. A private company must have its accounts audited. The directors' report provides information about the company's performance and figures. There are certain exemptions from the requirement to audit accounts. If a company is exempted from auditing their accounts, this is discussed in guidance note 1.

### **Accounting Reference Date (ARD)**

A company produces its accounts by reference to an Accounting Reference Date (ARD). For newly incorporated companies, the first ARD will be the last day of the month in which the company was incorporated. Subsequent ARDs will be on the same date each year. For example, if the company was incorporated on 1 June 2014 its first accounting reference date will be 30 June 2015 and 30 June for every year thereafter.

The ARD can be changed by submitting a notice to Companies House before the last date for filing of the accounts. A company can change the ARD to any date, however a company may not change the ARD to a date more than 18 months from its current ARD.

### **Approval of Accounts**

Directors must approve the annual accounts. They must satisfy themselves that the accounts give a true and fair view of the financial position of the company. The board of directors must pass a resolution approving the accounts and a director must be authorised to sign the accounts. For private companies, there is no statutory requirement for the accounts to be approved by shareholders.

There is also no statutory obligation for a company to lay its accounts before a general meeting. This is because the Companies Act 2006 does not require companies to hold AGMs. However, if a private company does hold an AGM, it must lay its accounts before its members at the AGM. Shareholders may pass a shareholders' resolution to remove that provision.

There is no requirement for companies to use a professional accountant to prepare accounts. However, if directors are uncertain about the requirements, they should consider seeking professional advice.

Companies must keep adequate accounting records. This is a requirement of the Companies Act 2006. Unless otherwise stated this guidance note deals with the requirements for small companies (as defined by the Companies Act 2006).

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Directors must be responsible for their accuracy. They must satisfy themselves that the accounts give a true and fair view of the financial position of the company. The board of directors must pass a resolution approving the accounts and a director must be authorised to sign the accounts. For private companies, there is no statutory requirement for the accounts to be approved by shareholders.

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## Distributing the report and accounts

Before they are filed with the registrar, the accounts must be distributed, regardless of the size of the company. All holders of debentures and persons entitled to shares must be sent by post, they can be sent to the company's website.

A company may pass a resolution of the directors to the effect that the company may send or supply documents, in particular the accounts, to its members always have the right to receive them.

## Filing the report and accounts with the registrar

Private companies must file their accounts with the registrar. Failure to deliver accounts on time is a criminal offence on the company for the late filing of accounts.

Newly incorporated companies must file their accounts with Companies House within 21 months after the date the company first starts trading.

## Regime for Small Companies

As stated above, every company must file accounts with the registrar. Small or medium-sized companies may, however, file abbreviated accounts with Companies, Partnerships and Groups Regulations (the "2015 Regulations"), the Companies Act 2006 on or after 1 January 2016, the abbreviated accounts has been removed. Companies must then decide whether to file its members as for the public record or not.

As a practical point this means that from 1 January 2016, all companies must either prepare full accounts or take advantage of the new regime available for small companies.

The very smallest companies can choose to prepare abbreviated accounts. This is available to medium sized companies. There is also an option for small companies to file abbreviated accounts.

## Abridged Accounts

Abridged accounts contain a reduced set of information compared to full accounts. Abridged accounts contain a balance sheet that is included in a full profit and loss account. Likewise, the profit and loss account is included in a full balance sheet. That is included in a full profit and loss account. Companies can choose whether or not to file its directors' report with the Registrar of Companies.

The full requirements for small companies can be found in the Small Companies Accounts Regulations 2015.

A set of report and accounts must be prepared and must be sent to every shareholder, debenture holder and persons entitled to shares of general meetings. If the accounts are not sent to each member and debenture holder.

Articles to the effect that the company may send or supply documents, in particular the accounts, to its members via a website. In any event, the company must ensure that the accounts are available to all members.

Companies must file their accounts with Companies House within 9 months of the ARD. In addition, the law imposes a civil penalty on companies that fail to file on time.

Newly incorporated companies must file their accounts with Companies House within 21 months after the date the company first starts trading.

As stated above, every company must file accounts for circulation to shareholders. Small or medium-sized companies may, however, file abbreviated accounts, known as 'abbreviated accounts' with Companies, Partnerships and Groups Regulations (the "2015 Regulations"), the Companies Act 2006 on or after 1 January 2016, the abbreviated accounts has been removed. Companies must then decide whether to file its members as for the public record or not.

As a practical point this means that from 1 January 2016, all companies must either prepare full accounts or take advantage of exemptions in the new regime available for small companies.

The very smallest companies can choose to prepare abbreviated accounts (see below), while small or medium-sized companies can choose to prepare abbreviated or simplified accounts (this is not available to medium sized companies). There is also an option for small companies to file abbreviated accounts.

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The full requirements for small companies can be found in the Small Companies Accounts Regulations 2015.

Regulations 2008 as amended by the Institute of Chartered Accountants can be accessed [here](#) and on their website.

Unanimous shareholder consent is required to be made and agreed to the abridgement. Without it, the accounts must be prepared (as at the last day of the financial year) and filed. The company must also obtain unanimous shareholder consent. If the company wishes to prepare abridged accounts, the shareholders will not consent, rather they will receive abridged accounts. The accounts should include a statement containing the abridgement.

### “Filleted Accounts”

Small companies can also choose to prepare a filleted report. These are so called “filleted accounts”. Small companies can elect not to file accounts with Companies House. The Companies Act 2006, as amended by the 2015 Regulations, if a small company prepares a filleted directors’ report, the balance sheet must be audited. For guidance on filleted accounts, the ICAEW has published the above link.

### Thresholds

Note that the 2015 Regulations also define a medium company. The thresholds are:

<b><i>Small company</i></b>
Turnover must not exceed £10.2 million
Balance sheet total* must not exceed £5,100,000
Total number of employees: maximum: 50

\* Balance sheet total means the aggregate of the company’s fixed assets, current assets and current liabilities shown on the balance sheet

To qualify as a small or medium sized company, a company must meet at least two of the relevant criteria. In calculating the aggregate turnover, the turnover must be adjusted when dealing with a period of less than 12 months. The aggregate of the amounts shown on the balance sheet must be used.

The Financial Reporting Council (FRC) sets the accounting standards under which UK companies prepare their accounts. More information can be found on their website which can be accessed [here](#). More information on Companies House website.

There is also helpful guidance from the ICAEW (ICAEW) on the subject; which can be accessed [here](#).

Preparation of abridged accounts and a statement to indicate that the members have consented to the abridgement must be prepared (as at the last day of the financial year) and filed. The company must also obtain unanimous shareholder consent in respect of the preceding financial year. If the company wishes to prepare abridged accounts on an on-going basis it must obtain unanimous shareholder consent. If it is given and abridged accounts are prepared, the shareholders will not consent, rather they will receive abridged accounts. The accounts must be identified as such and the company should include a statement containing the abridgement. For example, “the members have consented to the abridgement”.

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Thresholds for what qualifies as a small or medium company are:

<b><i>Medium-sized company</i></b>
Turnover must not exceed £36 million
Balance sheet total must not exceed £18 million
Total number of employees: maximum: 250

\* Balance sheet total means the aggregate of the company’s fixed assets, current assets and current liabilities shown on the company’s balance sheet

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## Micro-entities

The Small Companies (Micro-Entities) Regulations 2013 came into force for accounting years ending on or after 30 September 2013. They provide an opportunity for companies preparing Companies Act individual financial statements (profit and loss account and balance sheet) to prepare simplified financial statements (profit and loss account and balance sheet) if they wish. The micro-entities exemption applies to companies which are small companies and have been formed and registered (or incorporated) under the Companies Act 2006 have the benefit of the micro-entities exemption. The criteria for the exemption are as follows:

- Balance sheet total: £316,000
- Net turnover: £632,000
- Average number of employees: 10 (or fewer).

Micro-entities will be able to draw up simplified financial statements. They will also continue to be exempt from the requirement to file accounts with Companies House. If the accounts are prepared in accordance with the micro-entities regime, the balance sheet must contain a statement to the effect that the company is a micro-entity. Further details are available on the FRC website.

### Summary

For accounting periods that start on or after 1 January 2013, small companies have 3 choices:

- they may prepare micro-entities financial statements (within the threshold);
- they may prepare abridged accounts;
- they may prepare full accounts.

In all cases a small company can choose to prepare full accounts. In every case a company must prepare a profit and loss account.

### Audit

#### Is an audit required?

In a private company, an auditor must be appointed by the directors unless the directors resolve otherwise on the grounds that it is unnecessary (Section 485 Companies Act 2006).

#### Audit exemption for small companies

There is an exemption from audit for small companies and they may wish to take advantage of it. To qualify as a small company, a company must be small (at least 2 of the following must be met: turnover of no more than £10 million, assets worth no more than £5 million, or 50 or fewer employees on average) in relation to that financial year. A company benefiting from the exemption is still required to send copies of its accounts and reports to the Registrar at Companies House.

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Note that even if a small company may not have its accounts audited if a member or member (by value) ask it to. This can be an individual or a group of shareholders. They must make the request in writing and send it to the company. The request must arrive at least one month before the financial year that the audit is being asked for (section 476 Companies Act 2006).

The administrative advantage of not having to have its accounts audited must be weighed up against the potential creditworthiness of a company. This may be a particular issue should the company require external finance, such as a bank loan, where the lender will likely wish to see audited accounts.

### **Audit exemption statement**

A company must include the following statement in its annual accounts if using an audit exemption:

“For the year ending [insert company financial year] the company was entitled to an exemption from audit under section 476 of the Companies Act 2006 relating to small companies.

The members have not required an audit of its accounts for the year in question in accordance with section 476 of the Companies Act 2006.

The directors acknowledge their responsibilities under section 476 of the Companies Act with respect to accounting records.

These accounts have been prepared in accordance with the provisions applicable to small companies subject to the small companies exemption.

### **Appointment of an auditor**

An auditor of a private company may be appointed in any of the following ways:

- (1) appointed by the members (s.485(1) Companies Act 2006); or
- (2) appointed by the directors (s.485(2) Companies Act 2006); or
- (3) deemed re-appointed (s.487(2) Companies Act 2006); or
- (4) appointed by the Secretary of State (s.485(3) Companies Act 2006).

For each financial year for which an auditor is appointed (other than the company's first financial year), the company must appoint an auditor within the 'period for appointing auditors'. This is before the end of the 'period for appointing auditors'.

- the end of the time allowed for the preparation of the company's annual accounts and reports for the previous financial year; or
- if earlier, the day on which the company's annual accounts and reports for the previous financial year are made available to the members.

audit exemption, it must still have at least 10% of shares (by number or value) held by a group of shareholders. They must make the request in writing and send it to the company's registered office address. The request must arrive at least one month before the financial year that the audit is being asked for (section 476 Companies Act 2006).

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- the company's annual accounts and reports for the previous financial year; or
- if earlier, the day on which the company's annual accounts and reports for the previous financial year are made available to the members.

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auditor concerned who has a right to its written representations (of which the auditor's written statement is a part). The company must send a copy of the statement to the auditor, to whom notice of the general meeting must arrive too late to be sent out as a document to be read out at the meeting.

There is an exception to the sending where a court is satisfied that the auditor's representations are of section 511 to secure needless publicity for defamatory matter.

### Resignation of the auditor

Section 516 of the Companies Act 2006 requires an auditor to give notice to the company deposited at the company's registered office.

For financial years beginning on or after 1 January 2007, notice of resignation depend on whether the company is a "public interest company" (that is, a company any of whose transferable securities are admitted to trading on the Official List or any of whose equity share capital is officially listed on a stock exchange) or not. The guidance note only deals with non-public interest companies.

An auditor of a non-public interest company who ceases to hold office must send to the company a statement of his reasons for ceasing to hold office **unless:**

- The auditor ceases to hold office because of the expiry of his term of office;
- The auditor's reasons for leaving are "exempt reasons" and there are no matters which he considers need to be brought to the attention of the members' or creditors' attention.

"Exempt reasons" are that:

- The auditor is to no longer carry on business in the United Kingdom;
- The company is (or is to become) a subsidiary undertaking of a company which is not a subsidiary undertaking of the auditor;
- The company is a subsidiary undertaking of a company which is not a subsidiary undertaking of the auditor and the parent prepares group accounts in which the auditor is also concerned; or
- The company is being wound up.

However, if an auditor of a non-public interest company ceases to hold office and he considers that none of the reasons mentioned above apply, he must include a statement in his statement of reasons for ceasing to hold office, stating that he considers that none of the reasons mentioned above apply, and that he considers that there are matters which he considers need to be brought to the attention of the members' or creditors' attention.

For any company, where there are no matters which he considers need to be brought to the attention of the members' or creditors' attention, he must include a statement in his statement of reasons for ceasing to hold office, stating that there are no matters which he considers need to be brought to the attention of the members' or creditors' attention.

A statement required by section 519 of the Companies Act 2006 must include the following details:

- The auditor's name and address;
- The auditor's number on the register of auditors;
- The company's name and registered office.

For financial years beginning on or after 1 January 2007, a company is not required to send the statement of reasons for ceasing to hold office to the company's registered office if it is being deposited.

an auditor's representations are of section 511 to secure needless publicity for defamatory matter.

may resign his office by written notice to the company deposited at the company's registered office.

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Section 517 is repealed and the requirement to send the statement of reasons for ceasing to hold office to the company's registered office within 14 days of the date of resignation is removed.

Where an auditor sends a statement to the company, the auditor must at the same time send a copy of the statement to the company.

An effective notice of resignation brings the auditor's office to an end as of the date on which the notice is received or such date as is specified in it.

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