



*Companies House*

— for the record —

**As modified by the Companies Act 2006**

# **Auditors**

**GBA4**

**August 2009**

**Version 19**

**BIS**

**Department for Business  
Innovation & Skills**

This guidance is available in alternative formats which include Braille, large print and audio tape. For further details please visit our website – or email our enquiries section or telephone our contact centre on 0303 1234 500

When reading these guidance notes, you need to be aware of the following:

Some (but not all) of the provisions in the Companies Act 2006 have come into force. Therefore, some provisions in the Companies Act 1985 remain relevant. We have tried as far as possible to make it clear throughout these notes which Act applies. If you would like to find out more you may wish to visit our website at [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk) where you can find out which provisions in the respective Acts are in force. Our website also contains a link to the BIS (Department for Business Innovation & Skills) website [www.berr.gov.uk/bbf/co-act-2006/index.html](http://www.berr.gov.uk/bbf/co-act-2006/index.html) where you can find further information. Some provisions in the new Act are subject to transitional arrangements. We will as far as possible explain these in this guidance and give details on our website.

There is one final stage in the implementation of the Companies Act 2006 scheduled for October 2009. We will update any guidance notes affected by those implementations at the time. You may wish also to keep an eye on our website where we will publish more information as the implementation process continues so you can access the most up to date information.

Until October 2009, these guidance notes apply only to companies formed in Great Britain (England, Wales and Scotland). The separate system in Northern Ireland is then scheduled to merge into a single system for the whole of the United Kingdom.

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### Introduction

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*This is a guide only and should be read with the relevant legislation;*

- Companies Act 1985
- Companies Act 1989
- Companies Act 2006
- The Companies Act 2006 (Commencement No.3, Consequential Amendments, Transitional Provisions and Savings) Order 2007
- The Companies Act 2006 (Commencement No. 5, Transitional Provisions and Savings) Order 2007.
- The Companies Act 2006 (Commencement No. 6, Saving and Commencement No. 3 and No. 5 (Amendment)) Order 2008

### Introduction

This booklet briefly explains the role of a company auditor. It outlines the circumstances when companies need not appoint an auditor. It also explains the procedure for appointing and removing auditors from office, and the individuals and firms who are eligible to act as auditors.

The booklet does not cover the role of a 'reporting accountant' appointed to small charitable companies. That role is being abolished, and (except in Northern Ireland) the law about reporting accountants does not apply to accounts for financial years beginning on or after 1 April 2008.

## Chapter 1 Appointment of auditors

### 1. What is an auditor?

An auditor is a person who makes an independent report to a company's members as to whether the company has prepared its financial statements in accordance with Company Law and the applicable financial reporting framework. The report must also state whether a company's accounts give a true and fair view of its affairs at the end of the year.

### 2. Must all companies have their accounts audited?

No. If they qualify for exemption and wish to take advantage of it, dormant companies and certain small companies do not have to have their accounts audited. To qualify for total audit exemption as a small company, the company must:

- qualify as small;
- have a turnover of not more than £5.6 million; and
- have a balance sheet total of not more than £2.8 million.

For financial years starting on or after 6 April 2008, to qualify for total audit exemption a company must:

- qualify as small;
- have a turnover of not more than £6.5 million; and
- have a balance sheet total of not more than £3.26 million.

A limited company that has not traded during a financial year, and which meets certain other criteria, may claim dormant company audit exemption. See our booklet, 'Dormant Companies'. Dormant companies do not need to appoint auditors and can deliver very basic accounts to Companies House.

For financial years beginning before 1 April 2008, for a charitable company to qualify for total audit exemption, it must qualify as small, its gross income must not be more than £90,000 and its balance sheet total must not be more than £2.8 million (£1.4 million for financial years ending on or before 30 March 2004).

Charities with a gross income between £90,000 and £250,000 and a balance sheet total of not more than £1.4 million qualify for partial audit exemption.

**NOTE:** For accounting periods starting on or after 1 April 2008 there is no longer a particular category for audit-exempt charitable companies. They will qualify for audit

exemption under company law in the same way as any other company. Charitable companies may also be subject to separate requirements for audit or other scrutiny of their accounts under charity law. For more information see:

[www.charity-commission.gov.uk/publications/cc32.asp](http://www.charity-commission.gov.uk/publications/cc32.asp)

More information about audit exemption for dormant companies and small companies is available in our guidance on '[Accounts and Accounting Reference Dates](#)'.

### **3. How does a company appoint an auditor?**

The rules are different for public and private companies.

For public companies, the directors appoint the first auditor of the company. The auditor then holds office until the end of the first meeting of the company at which the directors lay its accounts before the members. At that meeting, the members of the company can re-appoint the auditor, or appoint a different auditor, to hold office from the end of that meeting until the end of the next meeting at which the directors lay accounts.

For private companies, the directors appoint the first auditor of the company. The members may then appoint or re-appoint an auditor at a meeting of the company's members, or by written resolution, within 28 days of the directors sending the accounts to the members. If they do not do so, however, the appointed auditor remains in office until the members pass a resolution to reappoint him or to remove him as auditor (5% of members, or fewer if the articles say so, can force the consideration of a resolution to remove an auditor). This provision about remaining in office, however, does not apply if the auditor's most recent appointment was by the directors or the company's articles require annual appointment.

### **4. What does an auditor do?**

The auditor conducts the audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in preparing the financial statements.

The auditors' report must include:

- An introduction identifying the accounts that were the subject of the audit;
- A description of the scope of the audit identifying the auditing standards used and the financial reporting framework used in the preparation of the accounts (i.e. do they follow UK Generally Accepted Accounting Principles (GAAP) or International Accounting Standards (IAS) as adopted by the EU?);
- A statement as to whether in the auditors' opinion the accounts have been prepared in accordance with the Companies Act 1985 (for financial years beginning before 6 April 2008) or 2006 (for subsequent financial years) and, where appropriate, in

accordance with Article 4 of the EU Regulation on International Accounting Standards, (Regulation (EC)1606/2002, the “IAS Regulation”);

- A statement as to whether they give a true and fair view of the company’s or (in the case of group accounts) group’s financial affairs;
- A statement as to whether the directors’ report is consistent with the accounts;
- If the auditors are of the opinion that the company has not kept adequate accounting records, a statement to that effect; and
- If the company has not provided the auditors with all the information they need to complete the report, a statement to that effect.

The auditors’ report must be either unqualified or qualified and must include a reference to any matters to which the auditors wish to draw attention by way of emphasis without qualifying the report. The auditors will qualify the report where either there has been a limitation on the scope of the auditors’ work or where there is a material disagreement between the company and the auditors about the accounts. A qualified report may not meet the requirements of banks for advancing funds to the company.

There are additional requirements for the audit reports of quoted companies:

A report to the company’s members on the auditable part of the directors’ remuneration report and whether the company has properly prepared it in accordance with the Companies Act 1985 or 2006.(The 1985 Act applies for financial years beginning before 6 April 2008, the 2006 Act for later financial years).

The auditors must sign and date the report they provide to the company upon completion of the audit. For financial years beginning before 6 April 2008 (i.e. under the Companies Act 1985), the auditors must also sign the copy delivered to the registrar.

For financial years beginning on or after 6 April 2008 where the auditor is a firm, the senior statutory auditor must sign the auditors’ report in his own name on behalf of the firm. He must also date the signature. The company must state the name of the senior statutory auditor in copies of the auditors’ report which it publishes. Copies of the auditor’s reports delivered to the registrar must state the names of the audit firm and the senior statutory auditor, and be signed by the auditor or (where the auditor is a firm) by a person authorised to sign on its behalf.

## **5. Are there any exemptions from stating the auditor’s name on the auditor’s report?**

There is no exemption from this requirement under the Companies Act 1985. However, for accounting periods starting on or after 6 April 2008 this has changed. If the company considers that there is a risk that the auditor or any other person would be at risk of serious violence or intimidation if the auditor’s name (or the name of the “senior statutory auditor” who signed the report on the audit firm’s behalf) appeared on filed or published copies of the report, they may pass a resolution to omit the name from those copies.

Do not send a copy of the resolution to Companies House, but you should send notice of it to the following address,

The Secretary of State  
PO Box 4082  
Cardiff  
CF14 3WE

The notice must state:

- the name and registered number of the company;
- the financial year of the company to which the report relates; and
- the name of the auditor and (where the auditor is a firm) the name of the person who signed the report as senior statutory auditor.

The auditor's report attached to the accounts would need to contain the following statement:

'The company has passed a resolution in accordance with section 506 of the Companies Act 2006 that the auditor's name should not be stated.'

## 6. Can my accountant be my auditor?

An auditor must be independent of the company. Therefore, you cannot appoint a person as an auditor if they are:

- an officer or employee of the company or an associated company; or
- a partner or employee of such a person, or a partnership of which such a person is a partner

If your accountant does not fall into one of the above categories and if he or she has a current audit-practising certificate issued by a recognised supervisory body, they may act as the company's auditors.

**REMEMBER:** Not all members of a recognised supervisory body are eligible to act as an auditor. The appropriate supervisory body will be able to tell you whether a particular individual or firm has a current audit-practising certificate.

## 7. What and who are recognised supervisory bodies?

The Professional Oversight Board for Accountancy recognises these bodies as having rules designed to ensure that auditors are of the highest professional competence. Each recognised body has strict regulations and a disciplinary code to govern the conduct of their registered auditors. The four recognised bodies are:

1. The Institute of Chartered Accountants of Scotland  
21 Haymarket Yards  
Edinburgh EH2 5BH  
Tel: 0131 347 0100
2. The Institute of Chartered Accountants in England and Wales  
Level 1  
Metropolitan Court  
321 Avebury Boulevard  
Milton Keynes MK9 2FZ  
Tel: 01908 248100
3. The Institute of Chartered Accountants in Ireland  
Chartered Accountants House  
87-89 Pembroke Road  
Dublin 4  
Tel: 0035 3166 80400
4. The Association of Chartered Certified Accountants  
2 Central Quay  
89 Hydepark Street  
Glasgow  
G3 8BWTel: 0141 582 2000

There is also the Association of Authorised Public Accountants, of 10 Lincoln's Inn Fields, London WC2A 3BP, Tel: 020 7396 5954; but they are a subsidiary of the Association of Chartered Certified Accountants.

**REMEMBER:** You can ask your auditor to confirm that he or she is registered with one of these bodies or you can contact the appropriate body.

### **8. Is an auditor usually only concerned with annual accounts?**

Subject to the APB's ethical standards, the auditors' statutory duties are limited to checking that there are adequate books and records, and to reporting on the annual accounts. However, there is nothing to stop you employing an auditor for other purposes, such as keeping the books or compiling the tax return, provided he (or she) does not take part in the management of the company.

Companies, the shares of which are traded on regulated stock markets, have to produce accounts more frequently than annually. These are "half yearly financial reports" although sometimes they are described as "interim accounts".

You should agree an engagement letter that sets out the scope of the auditor's engagement and the form of any reports that the auditor will make.

## Chapter 2 Removal of auditors

### 1. Can a company remove an auditor?

Yes. The members of a company may remove an auditor from office at any time during their term of office, or decide not to re-appoint the auditor for a further term. They must give the company 28 days notice of their intention to put to a general meeting a resolution to remove the auditor, or to appoint somebody else. In the case of a written resolution of a private company to appoint somebody else, the company has 28 days instead of the usual 21 days to circulate the resolution. The company must send a copy of the notice of the intended resolution to the auditor, who then has the right to make a written response and require that the company sends it to the company's members, and to speak at the meeting where the resolution is to be considered.

Although a company may remove an auditor from office at any time, the auditor may be entitled to compensation or damages for termination of appointment.

If an auditor ceases for any reason to hold office, he must deposit a statement at the company's registered office. If the company is not quoted on a stock exchange, the statement should set out any circumstances connected with his ceasing to hold office that he considers should be brought to the attention of the members and creditors of the company. If the company is quoted, he must set out the circumstances whether or not he considers that they need to be brought to the attention of the members and creditors of the company.

- If the circumstances are set out in the statement, the company must send a copy of the statement to all the members of the company unless it makes a successful application to the court to stop this. If the auditor does not receive notification of an application to the court within 21 days of depositing the statement with the company, the auditor must within a further 7 days send a copy of the statement to Companies House for the company's public record;
- If (in the case of an unquoted company) the circumstances are not set out in the statement, the auditor must deposit a statement with the company to that effect. The company does not have to circulate this statement to the members.

If the auditor resigns or is removed during his term of office, the company must notify the “appropriate audit authority”. This is the Professional Oversight Board if the audit is a “major audit”, or the professional body of the audit firm in other cases. A “major audit” is the audit of a company on the Stock Exchange Official List maintained by the Financial Services Authority, or any other company in whose financial condition the public have a major interest. The company must send either the statement which the auditor deposited with it or its own statement with the notice.

There is more detailed guidance on these provisions on the web-site of the Financial Reporting Council at [www.frc.org.uk/pob/regulation/notification.cfm](http://www.frc.org.uk/pob/regulation/notification.cfm)

## Chapter 3 Further information

### 1. How do I send information to the Registrar?

The safest and most secure way to send statutory information to Companies House is to use our online filing services. WebFiling offers free downloadable document templates. These contain inbuilt checks so that you can be sure you haven't omitted any key information. [For more information on availability and registration details please visit our website.](#)

You may deliver documents to the Registrar by hand (personally or by courier), including outside office hours, bank holidays and weekends to Cardiff, London and Edinburgh.

You may also send documents by post, by the Document Exchange Service (DX) or by Legal Post (LP) in Scotland. If you send documents, please address them to:

<b>For companies incorporated in England &amp; Wales:</b>	<b>For companies incorporated in Scotland:</b>
Companies House Crown Way Cardiff CF14 3UZ	Companies House 4th Floor Edinburgh Quay 2 139 Fountainbridge Edinburgh EH3 9FF
DX33050 Cardiff 1	DX ED235 Edinburgh 1 or LP – 4 Edinburgh 2

We will only acknowledge receipt of documents at Companies House if you provide a stamped addressed envelope.

**Please note:** an acknowledgement of receipt does not mean that Companies House has accepted a document for registration.

Companies House sends an automatic e-mail acknowledgement for every submission made via WebFiling and an additional e-mail indicating whether the submission has been accepted or rejected.

**Please note:** Companies House does not accept accounts or any other statutory documents by fax.

## **2. Where do I get forms and guidance?**

You can submit many forms to Companies House online via our Software Filing or WebFiling services. The service provides a secure system for presenters to submit company information. ([www.companieshouse.gov.uk](http://www.companieshouse.gov.uk))

Alternatively, statutory forms and guidance are available, free of charge from Companies House. The quickest way to get them is through our website or by telephoning 0303 1234 500.

You can also obtain forms from company law stationers, accountants, solicitors and company formation agents - addresses in business phone books.

## **how to contact us**

Contact Centre: 0303 1234 500\*  
Mini-com: 029 2038 1245  
[enquiries@companieshouse.gov.uk](mailto:enquiries@companieshouse.gov.uk)  
[www.companieshouse.gov.uk](http://www.companieshouse.gov.uk)

\*For training and quality purposes  
your call may be monitored

### **Cardiff:**

Companies House  
Crown Way, Cardiff CF14 3UZ  
Fax: 029 2038 0900

### **Edinburgh:**

Companies House  
4th Floor  
Edinburgh Quay 2  
139 Fountainbridge  
Edinburgh EH3 9FF

Fax: 0131 535 5820

### **London:**

Companies House  
21 Bloomsbury Street, London WC1B 3XD  
Fax: 029 2038 0900