



Companies House
— *for the record* —

Auditors

March 2004

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Auditors - GBA4

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

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Introduction

This booklet briefly explains the role of a company auditor. It outlines which companies must appoint an auditor and the circumstances when an auditor is not required. It also explains the procedure for appointing and removing auditors from office.

The booklet does not cover the role of a 'reporting accountant' appointed to charitable companies which are partially exempt from audit. For information on this, please refer to our booklet '[Accounts and Accounting Reference Dates](#)'.

You will find the relevant law in the Companies Act 1985 (as amended in 1989 and later).

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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 its financial statements have been properly prepared in accordance with the Companies Act 1985. The report must also say if a company's [accounts](#) give a true and fair view of its affairs. Most companies are required to have their accounts audited - see question 2 below.

2. Must all company accounts be 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 audit exemption as a small company, the company must:

- qualify as small;
- have a turnover of not more than £1 million; and
- have a balance sheet total of not more than £1.4 million.

Please note: New audit exemption thresholds apply to financial years ending after 30 March 2004 To qualify for total audit exemption, a 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 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 £1.4 million.

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 exemption.

- Dormant company audit exemption may be claimed by a limited company that has not traded during a financial year, and provided it meets certain other criteria. See our booklet, '[Dormant Companies](#)'. Dormant companies do not need to appoint auditors and can deliver very basic accounts to Companies House.

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

Audited accounts must be delivered to Companies House if a company falls into any of the following categories:

(a) A parent company or subsidiary undertaking (unless dormant for the period during which it was a subsidiary) except where the group:

- qualifies as a small group or would qualify if all the bodies corporate in the group were companies; and
- the turnover for the whole group is not more than £1 million net or £1.2 million gross (for a financial year that ended before 26 July 2000 or if the company is a charity, the combined turnover must not be more than £350,000 net or £420,000 gross); and
- the combined balance sheet total is not more than £1.4 million net (£1.68 million gross).

Please note: New audit exemption thresholds apply to financial years ending after 30 March 2004

A parent company or subsidiary undertaking (unless dormant for the period during which it was a subsidiary) cannot qualify except where the group:

- qualifies as a small group or would qualify if all the bodies corporate in the group were companies ; and
- the turnover for the whole group is not more than £5.6 million net (or £1.2 million gross); and
- the group's combined balance sheet total is not more than £2.8 million net (or £3.36 million gross).

(b) A member of a group of companies in which any member is:>

- a public company or body corporate which (not being a company) has power under its constitution to offer shares or debentures to the public;
- a person who has permission under Part 4 of the Financial Services and Markets Act 2000 to carry on a regulated activity; or
- a person who carries on insurance market activity.

(c) A person who has permission under Part 4 of the Financial Services and Markets Act 2000 to carry on a regulated activity.

(d) A person who carries on insurance market activity.

(e) An appointed representative within the meaning of s.39 of the Financial Services and Markets Act 2000

(f) A [public limited company](#) unless the company is dormant. See our booklet '[Accounts and Accounting Reference Dates](#)'.

(g) A special register body or an employers' association under the Trade Union and Labour Relations (Consolidation) Act 1992.

(h) A company where an audit is required by a member or members holding at least 10% of the nominal value of [issued share capital](#), or holding 10% of any [class of share](#) or - in the case of a [company limited by guarantee](#) - 10% of its members in number.

3. How is a company auditor appointed?

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 its accounts are laid 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 accounts are laid.

However, private companies can pass an '[elective resolution](#)' not to lay accounts before the members in a general meeting. If this is done, then the auditor has to be re-appointed, or a new one appointed, at another meeting of the company's members that must be held within 28 days of the accounts being sent to the members.

Private companies can also pass an elective resolution dispensing with the need to appoint an auditor every year. If that happens, the auditor already appointed remains in office without further formality until a resolution is passed to re-introduce annual appointment or to remove him or her as auditor. For more information on resolutions, see our booklet '[Resolutions](#)'.

4. What does an auditor do?

The auditor will check the accounts and [accounting records](#) of the company and prepare a report for the company's members.

The report will say if the company's annual accounts have been properly prepared in accordance with the Companies Acts and if they give a true and fair view of the company's financial affairs. The auditor will also consider if the information given in the directors' report is consistent with the annual accounts.

If in the auditor's opinion, the accounts or directors' report does not comply with the Companies Act, the auditor will say so in the report.

5. Can my accountant be my auditor?

An auditor must be independent of the company, therefore, a person cannot be appointed as an auditor if they are:

- an officer or employee of the company or an associated company;
- 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 but the appropriate body will be able to tell you whether a particular individual or firm has a current audit-practising certificate.

6. What and who are recognised supervisory bodies?

These are bodies recognised by the Secretary of State 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 five recognised bodies are:

1. The Institute of Chartered Accountants of Scotland
27 Queen Street
Edinburgh EH2 1LA
Tel: 0131 225 5673
2. The Institute of Chartered Accountants in England and Wales
Professional Standards Office
Silbury Court
412-416 Silbury Boulevard
Central Milton Keynes
MK9 2AF
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
64 Finnieston Square
Glasgow G3 8DT
Tel: 0141 582 2000
5. The Association of Authorised Public Accountants
10 Lincoln's Inn Fields
London
WC2A 3BP
Tel: 020 7396 5954

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.

7. Is an auditor only concerned with annual accounts?

Yes. 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. You should agree an engagement letter that sets out the auditor's duties. For instance, the company may want the auditor to prepare a management report after an audit, listing all the minor faults that were found even if they have been corrected.

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CHAPTER 2

Removal of auditors

1. Can an auditor be removed?

Yes. The members of a company may remove an auditor from office at any time during his (or her) 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 a resolution to remove the auditor, or to appoint somebody else, to a general meeting. A copy of the notice of the intended resolution must be sent to the auditor, who then has the right to make a written response and require that it be sent to the company's members.

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](#). 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 there are any such circumstances, the company must send a copy of the statement to all the members of the company unless a successful application is made 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 there are no such circumstances, the auditor must deposit a statement with the company to that effect. This statement need not be circulated to the members.

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CHAPTER 3

Further information

1. How do I send information to the Registrar?

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 or by the Hays Document Exchange service (DX). If you send documents, please address them to:

**For companies
incorporated in
England & Wales:**

The Registrar of Companies
Companies House
Crown Way
Cardiff CF14 3UZ

DX33050 Cardiff

**For companies
incorporated in
Scotland:**

The Registrar of Companies
Companies House
37 Castle Terrace
Edinburgh EH1 2EB

DX ED235 Edinburgh 1

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

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

2. Where do I get forms and guidance booklets?

This is one of a series of Companies House booklets which provide a simple guide to the Companies Act.

[Statutory forms](#) and [guidance booklets](#) are available, free of charge from Companies House. The quickest way to get them is through this website or by telephoning 0870 3333636.

If you prefer you can write to our stationery sections in [Cardiff](#) or [Edinburgh](#).

Forms can also be obtained from legal stationers, accountants, solicitors and company formation agents - addresses in business phone books.

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