

BACKGROUND NOTE – AUDIT AND AUDITORS

1. Under Part 16 of the Companies Act 2006, all UK companies must have their annual accounts audited by a statutory auditor unless they can claim an exemption (on grounds of being small or dormant). The auditor makes an independent report to the company's members as to whether the company has prepared its accounts in accordance with Company Law and the applicable financial reporting framework. The report must also state whether the company's accounts give a true and fair view of its affairs at the end of the year.
2. The auditor conducts the audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, part of the Financial Reporting Council. 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.
3. If the auditor is unable to state that the accounts have been properly prepared in accordance with the relevant legislation, then the auditor's report has to be qualified. The auditors will also qualify the report where there has been a limitation on the scope of the auditors' work or if there is a material disagreement between the company and the auditors about the accounts.
4. To be eligible to be appointed as a statutory auditor, a firm or individual must be registered with one of the Recognised Supervisory Bodies (RSBs), and subject to its rules. The RSBs are the major accountancy professional bodies – the Institute of Chartered Accountants in England and Wales, The Institute of Chartered Accountants in Ireland and the Institute of Chartered Accountants of Scotland, and the Association of Chartered Certified Accountants. The RSBs in turn are approved and overseen by the Professional Oversight Board (POB) of the Financial

Reporting Council (FRC), acting under powers delegated to it by the Secretary of State.

5. The RSBs and the Accounting and Actuarial Discipline Board (AADB) of the FRC each has a system for investigating breaches of professional standards and disciplining auditors, both individuals and firms. The penalties available include unlimited fines and withdrawal of audit practice certificates.

Department for Business, Innovation and Skills
February 2010