



Guidance on audits for company charities

This Q & A pack is designed to answer the questions that are most frequently raised with us about audit exemption under the Companies Act and the audit and independent examination of company charities under the [Charities Act 2011](#) ('the Charities Act').

About audit requirements

For financial years starting on or after 1 April 2008 company charities which meet the Companies Act definition of a small company (and do not exceed the Companies Act audit threshold) may elect for exemption from audit under the Companies Act. This enables small company charities to opt to have their accounts audited or independently examined under the Charities Act. Independent examination offers a lower cost alternative to charities that do not require the higher level of assurance that audit can provide. Changes effective from this date also resulted in the requirements for the audit of small groups when their accounts are prepared by parent company charities.

The changes necessary to both company and charity law to create a more level 'playing field' in external scrutiny arrangements for charities resulted in a number of questions being raised with us about the interface between the external scrutiny arrangements of company and charity law.

Questions and Answers

1. Does a charitable company have to be audited under both Companies Act and Charities Act provisions?
2. Can a charitable company be independently examined under the Charities Act?
3. What advantages are gained from claiming audit exemption under the Companies Act?
4. Which companies may claim exemption from audit under the Companies Act 2006?
5. What statement must be made in accounts if audit exemption is to be taken?
6. What must a Companies Act audit exemption statement say if accounts prepared under Companies Act 2006?
7. What if the charitable company operates in Scotland?
8. Do group accounts prepared under the Companies Act need to be audited?
9. When must a parent company prepare group accounts under the Companies Act 2006?
10. Should group accounts be prepared on a voluntary basis under the Companies Act?
11. Is there any guidance on the content of charity audit reports?
12. Where can further information about filing accounts with Companies House be obtained?

1. Does a charitable company have to be audited under both the Companies Act and Charities Act provisions?

No, if audit exemption is not available or not taken under the Companies Act then the accounts are simply audited under the Companies Act. The Charities Act provisions in relation to an audit and independent examination only apply to charitable companies where accounts are not required to be audited under the Companies Act.

2. Can a charitable company be independently examined under the Charities Act?

Yes, provided that:

- It is a small company that qualifies for audit exemption under the Companies Act (see [Question 4](#) for definition of a small company);
- The trustees as the company directors make the necessary audit exemption statement on the balance sheet (see [Question 6](#) for detail of what such a statement must contain); and
- The charitable company is eligible and opts for independent examination under the Charities Act.

To be eligible for independent examination the charity's:

- gross income in the relevant financial year must not exceed £500,000; or
- where the charity's gross income exceeds £100,000 (£250,000 for financial years ending on or after 1 April 2009) the aggregate value of its assets must not exceed £2.8m (£3.26m for financial years ending on or after 1 April 2009).

3. What advantages are gained from claiming audit exemption under the Companies Act?

For charitable companies that exceed the Charities Act audit threshold there is probably little advantage for eligible small companies to claim exemption from audit under the Companies Act. If an eligible small charitable company chooses to claim audit exemption under the Companies Act then an audit requirement would simply arise under the Charities Act.

However, there may be advantages for small charitable companies that fall below the Charities Act audit threshold. By choosing audit exemption under the Companies Act then a company charity may then opt for the lower cost option of an independent examination under the Charities Act.

Clearly in making a decision to opt for independent examination or no scrutiny at all where gross income does not exceed £25,000 (£10,000 for financial years ending before 1 April 2009), trustees need to balance the cost saving against the greater assurance an audit might provide. Trustees will also need to consider any constitutional provisions that require accounts to be audited and any terms that might be imposed by funders in relation to audit.

4. Which companies may claim exemption from audit under the Companies Act 2006?

For financial years starting on or after 6 April 2008 the Companies Act 2006 applies. A small company that does not exceed the audit threshold may elect for exemption from audit under company law. A small company is one that meets two of the following 3 criteria:

- income not more than £6.5m;
- gross assets not more than £3.26m; and
- average number of employees for the year not more than 50.

5. What statement must be made in accounts if audit exemption is to be taken?

To take advantage of the audit exemption conferred by section 477 of the Companies Act 2006 a statement must be provided on the company balance sheet by its directors concerning certain matters. A company is not entitled to audit exemption under the Companies Act in the absence of this required statement.

See [Question 6](#) for the content of this required statement.

6. What must a Companies Act audit exemption statement say if accounts prepared under Companies Act 2006?

When accounts are prepared under the Companies Act 2006 then the balance sheet must contain a statement, required by section 475(4), if it is to be exempt from audit under company law. A company is not entitled to exemption from audit unless its balance sheet contains a statement by the directors to that effect (see Companies Act 2006 section 475(2)).

Moreover, a company is not entitled to exemption unless its balance sheet contains a statement (see Companies Act 2006 section 475(3)) by the directors to the effect that:

- the members have not required the company to obtain an audit of its accounts for the year in question in accordance with section 476 Companies Act 2006, and
- the directors acknowledge their responsibility for complying with the requirements of the Companies Act 2006 with respect to accounting records and the preparation of accounts.

The required statement must appear in the balance sheet above the signature approving the accounts (see Companies Act 2006, section 475(4)).

The balance sheet must contain the following statements above the director's signature:

'For the year ending (dd/mm/yyyy) the company was entitled to exemption from audit under section 477 of the Companies Act 2006 relating to small companies.

- *The members have not required the company to obtain an audit of its accounts for the year in question in accordance with section 476,*
- *The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts.*

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

7. What if the charitable company operates in Scotland?

If a charity is registered on the Scottish Charity Register then The Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 apply to it even if it is registered in England and Wales.

The audit requirements of the Charities and Trustee Investment (Scotland) Act 2005 and The Charities Accounts (Scotland) Regulations 2006 apply to Scottish registered charitable companies.

If a Scottish registered charity is eligible then it may opt for exemption from the audit requirements of company law. In the absence of an election for audit exemption under the Companies Act then Scottish registered charitable companies will need to be audited under both sets of legislation.

If an election is made for audit exemption under the Companies Act then an audit or an independent examination as appropriate is still required under the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006.

If the charity is registered in England and Wales then a further consequence of audit exemption under the Companies Act is that the accounts will also be audited under the Charities Act.

8. Do group accounts prepared under the Companies Act need to be audited?

If the Companies Act requires the preparation of group accounts then the group accounts must be audited under Companies Act provisions and no requirement arises for those group accounts to be audited under the Charities Act.

Group accounts must be prepared and audited under the Charities Act where the aggregate gross income of the group for the financial year exceeds £500,000 unless there is a requirement for group accounts to be prepared under the Companies Act. The legal requirement to prepare group accounts under the Charities Act took effect for financial years beginning on or after 1 April 2008.

If group accounts are prepared on a voluntary basis under the Companies Act then the group accounts must still be audited under Charities Act provisions irrespective of whether an audit is undertaken under the Companies Act. This will affect the wording in the auditor's opinion which will refer to the Charities Act provisions in addition to the Companies Act.

9. When must a parent company prepare group accounts under the Companies Act 2006?

The duty to prepare group accounts applies to parent companies that are not subject to the small companies' regime (subject to certain exemptions provided by section 399). Section 383 sets out the relevant criteria that need to be met for a parent company and its group to fall within the small companies' regime as follows:

- (1) A parent company qualifies as a small company in relation to a financial year only if the group headed by it qualifies as a small group.
- (2) A group qualifies as small in relation to the parent company's first financial year if the qualifying conditions are met in that year.
- (3) A group qualifies as small in relation to a subsequent financial year of the parent company-
 - (a) if the qualifying conditions are met in that year and the preceding financial year;
 - (b) if the qualifying conditions are met in that year and the group qualified as small in relation to the preceding financial year;
 - (c) if the qualifying conditions were met in the preceding financial year and the group qualified as small in relation to that year.
- (4) The qualifying conditions are met by a group in a year in which it satisfies two or more of the following requirements-

1.	Aggregate turnover	Not more than £6.5 million net (or £7.8 million gross)
2.	Aggregate balance sheet total	Not more than £3.26 million net (or £3.9 million gross)
3.	Aggregate number of employees	Not more than 50

10. Should group accounts be prepared on a voluntary basis under the Companies Act?

If trustees wish to use group accounts as their company's annual accounts for company law purposes then the group accounts should be prepared under Companies Act provisions. Where group accounts are prepared on a voluntary basis under company law provisions then the accounts must also comply with the requirements of the Charities Act which are consistent with company law requirements for group accounts.

11. Is there any guidance on the content of charity audit reports?

The content of charity audit reports are set out in the Charities (Accounts and Reports) Regulations 2008 and the Companies Act makes provision for companies reporting under company law.

The Auditing Practices Board is responsible for establishing Auditing Standards which set out the basic principles and essential procedures with which external auditors in the United Kingdom and the Republic of Ireland are required to comply. They also produce bulletin guidance on charity audit reports.

The Auditing Practices Board (APB) issues compendia of illustrative audit reports which are effective for different reporting periods. Auditors are recommended to refer to the [APB website](#) for more information:

12. Where can further information about filing accounts with Companies House be obtained?

Further information about filing accounts at Companies House can be obtained from the [Companies House website](#).