

## **Audit Exemption**

### **Tony Kilcoyne – KDA Small Business Support**

The audit exemption for small companies was introduced in the Companies (Amendment) No 2 Act 1999. The turnover threshold is €317,435. Companies with a turnover greater than €317,435 must continue to have an audit carried out by a firm of registered auditors.

The Companies Acts 2003 (which is yet to be enacted) increases the turnover threshold to €1,500,000.

To avail of the audit exemption the following criteria must be met: -

- (a) The turnover must be less than €317,435 (to be increased to €1,500,000) for the financial year;
- (b) The total assets must be less than €1,904,607 at the end of the financial year;
- (c) Annual returns have been filed on time with Companies Office;
- (d) The average number of employees must be less than 50 for the financial year.

The above conditions must be satisfied for both the current and the previous financial year.

There are a number of issues to be considered when deciding whether or not to avail of the audit exemption. In reality, the choice will not be entirely unencumbered – the reaction of lenders and other financial institutions will play a significant part in the final decision.

- If you are likely to be seeking additional finance your bank will request audited accounts as a source of assurance on the financial wellbeing of the company. The audit improves the credibility and the quality of the financial information;
- If you are thinking of selling the business, or if you are looking for investors, a history of audited accounts will be invaluable to any potential buyers/investors;
- Do you have sufficient day to day control of the business to obviate the need for an independent audit;
- An audit helps to protect against fraud;
- The audit provides assurance for the board of directors, especially those who are not involved in the day-to-day running of the business, that the systems are sound and that there are no material errors and/or misstatement in the accounts.
- The audit provides comfort for other stakeholders, be they shareholders, customers, suppliers and employees that the company's accounts show a true and fair view and this will be an important consideration for directors in deciding whether or not to avail of the audit exemption.
- The audit promotes and helps maintain confidence in the integrity and honesty of the business and may help maintain your credit ratings. Some suppliers require audited financial statements before providing a trade credit facility.

The statutory audit provides valuable assurances to users of company accounts but nonetheless small companies will benefit from having the choice. Companies with a consistently low turnover that are self-financing and are closely managed by the shareholders would benefit from the audit exemption. The directors will, however, still be required to file an annual return with the Companies Office together with annual accounts that comply with the accounting and financial reporting standards and company law requirements. You will require the services of a professional accountant to prepare the accounts and the accounts will include an accountants report rather than an audit report. The main difference between the two reports is that the accountants report gives no assurance as to whether the accounts show a true and fair view.

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