

# Audit, auditors and audit exemptions checklists

Guidance note

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Reviewed: May 2022 Date of next review: May 2023

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# Audit, auditors and audit exemptions checklists

An audit provides reasonable assurance that accounts are free from material misstatement (whether caused by error, fraud or other irregularity). Where an organisation is required to have its accounts audited, the auditor's report is attached to the publicly filed copy of the annual accounts.

The UK regulatory system for auditors requires registered auditors to be registered with a Recognised Supervisory Body. The main RSBs are the principal professional bodies for the accounting profession in the UK.

The subject of audit, auditors and related matters is extensive and if your organisation has little experience of auditors, it is advisable to obtain professional advice or diligently consult regulations from Companies House or the Charity Commission/Office of the Scottish Charity Regulator for your legal obligations and best practice.

## Requirement for audit

Your organisation may have to appoint auditors and have its annual accounts audited because:

- it has a statutory obligation to have its annual accounts audited; or
- it has a constitutional obligation to do so.

Under Requirement 5.5 of the Code for Sports Governance, compliant organisations are required to prepare and publish audited accounts unless otherwise agreed by Sport England and/or UK Sport.

The legal and regulatory requirements regarding audit differ to some extent between the different legal forms that organisations take and between the various jurisdictions of the UK.

The board of an organisation that is not obliged to have its accounts audited may decide to appoint auditors and have an audit carried out for reasons of additional transparency and re-assurance or because a key partner organisation, such as a major funder, wishes to receive audited accounts from the organisation.

## Companies

All companies must have their annual accounts audited, unless the company is exempt from audit under:

### **Companies Act 2006 s. 477 – small companies**

A company qualifies as small if it is not excluded and meets at least two of the following criteria:

- Its turnover for the year is not more than £10.2 million
- Its balance sheet total for the year does not exceed £5.1 million
- The average number of employees does not exceed 50

A company qualifies as small in its first financial year or any subsequent year if it meets the condition in that year and the year before.

Companies that meet any of the following conditions at any time during the financial year are excluded from the small companies regime:

- Public companies
- The company is an authorised insurance company, banking company, e-money issuer, ISD investment firm or UCITS management company
- The company carries on insurance market activities
- The company is a member of an ineligible group

Companies that have adopted Table A of the Companies Act 1948 (or earlier versions) and companies that have adopted bespoke Articles of Association prior to 1 October 2009 may be required by their articles to appoint auditors.

### **Companies Act 2006 s. 479A – subsidiary exemption**

A company that is a subsidiary of a parent undertaking established under the law of an EEA state is exempt from the requirement to audit its accounts if the following conditions are met:

- All members of the company must agree to the exemption in respect of the financial year in question (see precedent 85)
- The parent undertaking must give a guarantee under s. 479C in respect of that year on Form AA06
- The company must be included in the consolidated accounts drawn up for that year or to an earlier date in that year by the parent undertaking in accordance with:
  - a) the provisions of the Seventh Directive (83/349/EEC); or
  - b) international accounting standards
- The parent undertaking must disclose in the notes to the consolidated accounts that the company is exempt from the requirements of this Act relating to the audit of individual accounts by virtue of this section (see precedent 86).
- The directors of the company must deliver to the registrar on or before the date that they file the accounts for that year:
  - a) a written notice of the agreement referred to in subsection (2)(a);
  - b) the statement referred to in s. 479C(1);

### **Companies Act 2006 s. 480 – dormant companies**

A dormant company is one that has had no significant accounting transactions as defined in CA2006 s. 1169 since the end of its previous financial year or, in the case of a newly incorporated company, since its incorporation.

The following transactions can be disregarded for the purposes of assessing dormant status:

- Payment of shares taken by the subscriber(s) to the memorandum and articles of association
- Fees paid to the Registrar of Companies
- Civil penalties imposed by the Registrar of Companies (i.e. late filing penalties)

Any other transactions required to be entered into the company's accounting records will disqualify the company from claiming dormant status.

- Companies Act 2006 s. 482 – non-profit companies subject to public sector audit

## Charities

### England and Wales

Charities subject to a statutory audit requirement must appoint a registered auditor, or some other person authorised by statute or to whom the Charity Commission has granted dispensation to carry out statutory audits of charity accounts.

Table of external scrutiny requirements and exemption thresholds – charities in England and Wales

Statutory audit or other scrutiny report	Charitable companies	Other charities
None	Gross income ceiling £25,000	Gross income ceiling £25,000*
Report by an independent examiner**	Gross income ceiling £500,000	Gross income ceiling £500,000
Full statutory audit report: Charities Act 2011	Gross income over £500,000 (£250,000 if book value of gross assets over £3.26m) or else no 'company audit exemption' claim	Gross income of charity or group over £500,000 (£250,000 if book value of gross assets over £3.26m)
Full statutory audit report: Companies Act 2006	Thresholds: turnover £6.5m; gross assets £3.26m; 50 staff (or 'audit exemption' not claimed)	Not applicable

\* For Church of England Parochial Church Councils, independent scrutiny is required under church accounting regulations.

\*\* The independent examiner must be suitably qualified, in accordance with relevant regulations, if the charity's gross income exceeded £250,000.

### Scotland

Under the Scottish charity accounting regulations, if the term 'audit' is used in a charity's constitution or governing document, the charity must have its accounts audited by either:

- a registered auditor;
- the Auditor General for Scotland; or
- an auditor appointed by the Accounts Commission for Scotland (responsible principally for public bodies).

Different thresholds and exemption provisions apply to unincorporated charities and SCIOs under charity law in Scotland. There will be a statutory audit requirement if:

- the gross income for the year is £500,000 or more; or
- gross assets at the financial year-end exceed £2,800,000 and the charity has prepared accrued accounts.

Charitable companies are subject to the same thresholds as are applicable to charitable companies in England and Wales because company law has UK-wide application.

## **Northern Ireland**

Northern Ireland specific accounting and reporting requirements apply to charities on the Northern Ireland Register of Charities. CCNI guidance is available on the CCNI website.

Charitable companies are subject to the same thresholds as are applicable to charitable companies in England and Wales because company law has UK-wide application.

Non-company charities are subject to the audit requirements of the Charities (Accounts and Reports) Regulations (Northern Ireland) 2015.

## **More information**

Guidance for auditors on relevant auditing standards and ethical and professional standards is available from the Financial Reporting Council and relevant professional bodies, such as the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants for Scotland, Chartered Accountants Ireland (which is the professional body for the chartered accounting profession in Northern Ireland as well as Ireland) and the Association of Chartered Certified Accountants.

## **Checklist**

- Is there a legal or regulatory obligation for the organisation to appoint auditors?
- Is there a constitutional requirement to appoint auditors and arrange an audit of the organisation's annual accounts?
- Has a funder or other relevant party requested audited annual accounts?
- Have the trustees/directors taken a decision that audit would be appropriate, even though there is no obligation for the organisation to have its accounts audited?

If the answer to any of the above is affirmative, the organisation should ensure it appoints auditors.

If auditors are not required, consider whether an independent examiner should be appointed to carry out an independent examination of the accounts

# **Auditors – appointment**

## **Procedure**

### **Companies limited by guarantee**

- Companies must appoint auditors unless they are dormant or audit exempt.
- Where auditors do not need to be appointed the directors should specifically resolve not to appoint them, on the grounds that audited accounts are not likely to be required for the financial year in question.
- Where auditors are required, the directors may resolve to appoint them in any of the following circumstances:
  - a) as the company's first auditors;
  - b) to fill a casual vacancy (e.g. a vacancy arising from the resignation of the previous auditors); or
  - c) to appoint auditors following a previous period when the company was exempt from audit so it did not have auditors in office.
- An auditor is deemed re-appointed each year unless:
  - a) the auditor was appointed by the directors;

- b) the articles require re-appointment (e.g. at the AGM);
  - c) the members exercise their right to prevent deemed re-appointment (see s. 488 CA 2006);
  - d) the members have resolved that the current auditor shall not be re-appointed;  
or
  - e) the directors have resolved that no auditor should be appointed for the financial year in question.
- Note that because of (a) there must be one re-appointment by the members before the 'deemed to continue in office' provisions can apply.

### **Charitable incorporated organisations**

- The trustees are responsible for ensuring the CIO meets relevant statutory requirements with regard to the preparation of annual accounts and the audit or independent examination of those accounts.
- The trustees will appoint the auditors (if audit is required) unless the particular CIO's constitution requires appointment by the members.

### **Unincorporated charity**

The procedure will largely depend on the charity's constitution.

- In a non-membership charity (for example an unincorporated charitable trust) it is likely that the trustees will appoint the auditor.
- In a membership charity the appointment may need to be made by the member (e.g. at the AGM).

### **Qualifications and independence**

- An auditor must be suitably qualified and independent (for example not an officer, trustee or employee of the organisation).
- Auditors are registered with a Recognised Supervisory Body in accordance with the UK's requirement for the regulation of the audit profession.
- A registered auditor may be an individual, a partnership or a corporate body, such as a limited liability partnership or a company.
- For a CLG, the auditor must be qualified in accordance with company law provisions.
- For CIOs and unincorporated charities, relevant charity law provisions apply in these matters.

### **Filing requirements**

- A statutory audit report submitted with the annual accounts to Companies House and/or charity regulators must comply with relevant requirements with regard to wording, format and document quality standards.

### **Notes**

- The accounting and audit obligations for charitable CLGs flow from the Companies Act 2006 as modified by the Charities Act 2011 and relevant regulations.
- The members of a CLG who represent at least 10% of the total number of members may require an audit of its accounts for any year (i.e. regardless of the company otherwise being exempt from Companies Act audit requirements).
- The accounting and audit obligations for CIOs flow from the Charities Act 2011.

- Full charity law based statutory audit of a CIO's accounts is required if the income is over £500,000 (£250,000 if the book value of the assets exceeds £3.26 million) or the CIO is part of a group of organisations. If the income is lower, an independent examination is permitted in place of an audit.
- A change of auditors of a CLG triggers requirements to notify Companies House. A change of auditors (in any type of charity) does not of itself trigger a notification requirement with regard to the relevant charity regulator(s). However, depending on the circumstances that led to the change, a 'whistleblowing' requirement may arise for the outgoing auditors.

### **Checklist**

- Auditors leaving office should consider whether a 'whistleblowing' duty arises.
- The organisation should consider what procedures are required with regard to the departure of the outgoing auditors and, if applicable, the appointment of new auditors.

### **Procedure**

#### **Company – statement by auditor leaving office**

- An auditor who ceases to hold office as auditor of a company must provide a statement setting out any circumstances relevant to that cessation of office that should be brought to the attention of members or creditors of the company or stating that there are no such circumstances.
- If the statement does set out circumstances that ought to be brought to the attention of members or creditors, the company must, within 14 days of deposit of that statement with the company:
  - a) send a copy of the statement to all those who are entitled to receive copies of the statutory accounts of the company; or
  - b) apply to the court for relief from that requirement.
- If an application to court is made, the auditor must be notified of that by the company within 21 days of the date of deposit of the statement.

## **Auditors – procedures for changes of auditors**

### **Company – early cessation of office**

- If an auditor ceases to hold office as auditor of a company before the end of his or her term of office, both the auditor and the company are obliged to notify the appropriate audit authority.

### **Company – special procedures for appointing a different auditor**

- Special procedures apply if a company proposes to appoint a different auditor in place of an auditor whose term of office has expired or is to expire. These apply when the change is taking place from one financial year to the next.
- The underlying intention of these requirements is to ensure the outgoing auditor has the opportunity to make representations that will be seen by the members of the company.
- The requirements apply if:
  - a) no period for appointing auditors has ended since the outgoing auditor ceased to hold office; or



- b) such a period has ended and an auditor should have been appointed but was not.
- The 'period for appointing auditors' is the period of 28 days beginning with:
  - a) the end of the time allowed for sending out copies of the company's annual accounts for the previous financial year to the members; or
  - b) if earlier, the day on which the copies of the company's annual accounts for the previous year are sent out.
- If the resolution is proposed as a written resolution, the company must send a copy of the proposed resolution to the person proposed to be appointed and to the outgoing auditor.
- If the resolution is to be proposed at a general meeting, e.g. the AGM, special notice of the proposed resolution is required. That is, notice of the proposed resolution must be given to the company at least 28 days before the meeting at which the resolution is to be proposed.
- On receipt of that notice, the company must send a copy of it to the person proposed to be appointed and to the outgoing auditor. The auditor has the right to attend the meeting under general auditor's rights (s. 502 CA 2006).
- In either case (meeting or written resolution) the outgoing auditor is entitled, within 14 days of receiving notice from the company of the proposed resolution, to require the company to circulate written representations to the members. If such representations are made, the company must circulate them unless it applies to court for permission not to do so on the grounds that the auditor is using the statutory provisions to secure needless publicity for defamatory matter.

### **Filing requirements**

- In the absence of notification from the company to the auditor that it has applied to court as above, the auditor must send a copy of the statement to Companies House within seven days of the expiry of the 21-day period allowed for making the application to the court.

### **Notes**

- A charity in a legal form other than a CLG may have to follow particular procedures on a change of its auditors because of provisions in its own constitution.
- Note that there will normally be a professional adviser/client contractual relationship between the auditors and the organisation. Consideration should be given to the correct steps to end that relationship and to deal with any outstanding issues (e.g. unpaid fees due to the outgoing auditor).
- Removal of an auditor of a company is subject to special rules and procedures – see checklist: 'Auditors – removal'.

### **More information**

- The joint guidance from the charity regulators 'Reporting matters of material significance: guidance for auditors and examiners' (issued jointly by all three UK charity regulators – available on the Charity Commission website).
- Charity Commission guidance on trustees reporting serious incidents: [www.gov.uk/government/organisations/charity-commission](http://www.gov.uk/government/organisations/charity-commission).

## Auditors – removal

Removal of auditors should be distinguished carefully from other reasons for the cessation of office of an auditor (including voluntary resignation or reaching the end of a term of office and not seeking re-appointment). Forcible removal of auditors from office is serious matter (and a rare event). It is likely to signify there are major problems in relation to the organisation.

Where a forcible removal is being considered the organisation should seek appropriate professional advice.

### Checklist

- Obtain appropriate professional advice before proceeding with an attempted forcible removal.

### Procedure

- In a company, forcible removal of auditors is subject to Companies Act requirements (see further below).
- In other types of charity, the constitution may give the trustees power to remove the auditors or it may provide for any proposed removal to be considered by the charity's members.

### Company – removal of auditor

- An auditor can be removed from office by ordinary resolution of the members of the company. This must be passed at a general meeting (a written resolution cannot be used).
- Special notice of the proposed resolution is required. That is, notice of the proposed resolution must be given to the company at least 28 days before the meeting at which the resolution is to be proposed. On receipt of that notice, the company must send a copy of it to the auditor who is proposed to be removed.
- The auditor has the right to require written representations to be circulated to the members of the company.
- The auditor can attend and be heard at the meeting.
- An auditor who has been removed from office has the right to attend and be heard at any general meeting at which it is proposed to fill the vacancy created by that removal.

### Filing requirements

- Where a resolution to remove an auditor is passed, the company must give notice of that to the Registrar of Companies within 14 days (it is an offence to fail to do so) [Form AA03].

Also:

- Note that there will normally be a professional adviser/client contractual relationship between the auditors and the organisation. Consideration should be given to the correct steps to end that relationship and to deal with any outstanding issues (e.g. unpaid fees due to the outgoing auditor).
- Removal of a company auditor in accordance with the Companies Act procedures does not deprive the auditor from any entitlement he or she may have to damages in

respect of that termination (or in respect of the termination of any other office that terminates as his or her office as auditor is terminated).

Of course, Auditors may choose to resign from office voluntarily. This should be distinguished carefully from other reasons for the cessation of office of an auditor (including reaching the end of a term of office and not seeking re-appointment).

### Checklist

- Is the change of auditors due to a voluntary resignation or is it because of some other reason? (If it is for another reason, additional procedures may be required.)
- Ensure the audit arrangements for the current year are properly completed.
- Auditors leaving office should consider whether a 'whistleblowing' duty arises.

### Procedure

- Obtain signed letter of resignation from the outgoing auditors.
- The charity should consider what further procedures are required with regard to the departure of the resigning auditors and, if applicable, the appointment of new auditors.

### Company – statement by auditor leaving office

- An auditor who ceases to hold office as auditor of a company must provide a statement setting out any circumstances relevant to that cessation of office that should be brought to the attention of members or creditors of the company or stating that there are no such circumstances. For further details see checklist: 'Auditors – procedures for changes of auditors'.

### Filing requirements

- When there is a change of auditor, if the outgoing auditor of a company exercises his or her right to provide written representations to be circulated to the members of the company, the outgoing auditor must file a copy of the representations at Companies House.

Also, remember:

- If an auditor of a company ceases to hold office before the end of his or her term of office, both the company and the auditor are obliged to notify the appropriate audit authority.
- If the outgoing auditor provides a written statement of circumstances that ought to be brought to the attention of members or creditors, a copy of that must be sent by the company to all those who are entitled to receive copies of the company's statutory accounts.

Date of approval

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Date of next review

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