



WHEN MUST A REPORT BE SIGNED BY A REGISTERED AUDITOR?

Who is this helpsheet for?

This helpsheet is for all members in practice who produce reports on financial statements.

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This helpsheet identifies the main reporting requirements for the most common types of clients.

This helpsheet sets out the reporting requirements for some of the more usual types of clients which firms encounter. It aims to help firms determine the reporting requirements for clients and make sure that they provide the correct type of report to their client. It will help firms to avoid inadvertently carrying out work which requires registered auditor status when that status is not held.

In addition to the client types covered in the following paragraphs, there are many occasions when a report is required on accounts or specified information for which the underlying law, regulations or governing document states that the report must be given by a registered auditor. Members are advised to check the provisions governing the report they have been asked to give and, if still in doubt, to call the Technical Enquiries line on 01908 248025.

When must a report be signed by a registered auditor?

Introduction

Firms are engaged to provide auditors', accountants' and other reports for a wide variety of clients some of which require the firm to be a 'registered auditor'. Many of the size thresholds for audit reports have been changed in recent years and it is important that firms keep up to date with the current thresholds for each category of client. This helpsheet summarises the requirements and firms should review the underlying legislation/ regulations before starting work on a particular type of engagement.

The reporting requirements for most clients have changed in recent years.

Firms should also check the constitution of each client. The constitution may contain specific requirements regarding the preparation or audit of their accounts and these will generally overrule any exemptions granted by legislation.

It is important to check the constitution of each client as this may contain other accounts/audit requirements.

If you would like to become a registered auditor, please contact Regulatory Support on 01908 546302 or email regulatory.support@icaew.co.uk for an information pack. You can view the requirements and download the application form from www.icaew.co.uk/index.cfm?route=101478.

Companies (other than charitable companies)

The requirement to be a registered auditor for company audit work was introduced in S25 of the Companies Act 1989 which commenced on 1 October 1991. In addition, SI 1991/1997 (also effective from 1 October 1991) extended the requirement to be a registered auditor to certain other existing legislation.

A company is eligible for exemption from audit if it is classified as a small company, has a turnover in that year of no more than £5.6 million and gross assets (fixed and current assets without any deduction of liabilities) of no more than £2.8 million (S249A CA 1985). This threshold applies to financial years ending on or after 30 March 2004. If 10% or more of the shareholders request an audit, the company is not entitled to audit exemption and must obtain a statutory audit of its accounts by a registered auditor regardless of its size (S249B CA 1985).

Most small companies with a turnover below £5.6m no longer require audited accounts.

The following categories of companies cannot use audit exemption (S249B CA 1985):

- public limited companies;
- FSA authorised companies;
- insurance companies;
- appointed representatives of FSA authorised companies;
- trade unions and employer associations (registered under the Trade Union and Labour Relations (Consolidation) Act 1992); and
- parent companies or subsidiary undertakings (unless the whole group qualifies as small).

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However, with effect from 5 September 2005, audit exemption was reinstated for small mortgage and general insurance intermediaries who became subject to FSA regulation in October 2004 and January 2005 respectively (for more details see *Audit & Beyond*, October 2005).

In April 2006 the FSA consulted on allowing small (in Companies Act terms) FSA authorised companies and appointed representatives to be exempt from audit. The FSA has recently announced that the DTI will now draft regulations to implement these proposals and it is hoped that they will apply to financial years ending on or after 31 December 2006.

Dormant companies are exempt from audit unless they are parent companies that are required to prepare group accounts, or are ineligible, as described above.

There is no requirement to be a registered auditor to audit companies based outside the EU, for example, in Jersey, Guernsey and the Isle of Man. However, companies which are registered in the Republic of Ireland with a turnover above €1.5m (soon to be increased to €7.3m) require an audit by a registered auditor, but this work cannot be performed by a corporate auditor or LLP (under current Irish legislation).

Charities

An unincorporated charity based in England or Wales requires an audit by a registered auditor if:

- it has more than £250K income or expenditure in the current year; or
- more than £250K income or expenditure in either of the two preceding years.

Most charities and charitable companies with income or expenditure below £250k are not required by statute to prepare audited accounts.

For income/expenditure between £10K and £250K, an independent examination is required which can be carried out by any suitable professionally qualified person. The Charity Commission strongly recommends that trustees of charities with income of more than £100k but below the compulsory audit threshold, should select a qualified accountant (or an individual with similar qualifications in charity finance) to carry out the independent examination.

The Charities Bill (currently passing through Parliament) is expected to increase the audit threshold to £500k. For income/expenditure above £250k, the independent examination must be carried out by a registered auditor. Below £250k it can be carried out by anyone. However, above £100k, the Charity Commission recommends that a qualified accountant is used.

For income below £10k there are no accounts examination requirements. In some cases, a charity's governing document may require an audit even though the Charities Act 1993 gives the charity the option of independent examination. Different limits apply in Scotland and Northern Ireland.

Places of worship registered under the Places of Worship

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Registration Act 1855 are excepted from registering with the Charity Commission in England and Wales. However the duty to prepare accounts and to have them either independently examined or audited is exactly the same as for other charities.

Charitable Companies

Charitable companies are generally incorporated as companies limited by guarantee, and the requirements of the Companies Act 1985 apply to them. They are not eligible for the independent examination requirements of the Charities Act 1993. All charitable companies must comply with the Companies Act 1985 with respect to the form and content of their accounts. In following the charities SORP, charitable companies will normally meet most of the reporting requirements under the Companies Act 1985.

Charitable companies with income between £90k and £250k are exempt from audit but must attach an audit exemption report to their accounts.

Charitable companies with income over £250K or gross balance sheet total above £2.8m (£1.4m before 30 March 2004) must prepare audited accounts.

Those with income between £90K and £250K and a balance sheet total of no more than £1.4m may opt for an audit exemption report rather than an audit. The audit exemption report is prepared by a reporting accountant (not a registered auditor). See APB Practice Note 11 Appendix 1 for the detailed requirements.

Firms with charity clients may wish to join the ICAEW's Charity and Voluntary Sector Special Interest Group.

Limited Liability Partnerships

The detailed accounting requirements relating to Limited Liability Partnerships (LLPs) are set out in the Limited Liability Partnerships Regulations 2001 (SI 2001/1090). These regulations apply, with appropriate modifications, the same accounts and audit provisions of the CA 1985 for companies to LLPs.

LLPs have the same reporting requirements as companies.

Clubs and associations

Clubs and associations are generally registered under the Industrial and Provident Societies Acts 1965-1978, as amended, or the Friendly Societies Act 1974. They are required to have an audit by a registered auditor unless they satisfy the following conditions for audit exemption (SI 1996/1738):

- the value of assets at the end of the preceding financial year did not in the aggregate exceed £1,400,000;
- turnover for that year did not exceed £350,000 (should be pro rated for periods other than a year); and
- a resolution to disapply the audit requirement must be passed at a general meeting at which:
 - less than 20% of the total votes cast are against the resolution; and
 - less than 10% of the members of the society entitled to vote under the society's rules cast their votes against the resolution.

When must a report be signed by a registered auditor?

This table summarises the reporting requirements of clubs and associations.

Turnover	Report
Above £350k	Audit report by a registered auditor
Between £90k and £350k	Accountants' report by a registered auditor
Between £5k and £90K	No audit or accountants' report, provided that an audit exemption resolution has been passed. A club which fails to pass the necessary resolution must have its accounts audited by a registered auditor.
Below £5k	The club/ society may appoint two or more lay people to 'audit' their accounts if: <ul style="list-style-type: none"> • receipts, payments or assets do not exceed £5,000 and • there are less than 500 members.

Clubs and associations may also be limited by shares or guarantee and must comply with the reporting requirements of the Companies Acts. A club which is a registered charity must also comply with charity reporting requirements.

SI 2006/265 which applies to accounting periods ending after 6 June 2006 has increased the audit threshold for Friendly and Industrial and Provident Societies to £5.6m turnover and £2.8m assets. This brings them into line with the company audit thresholds. However societies registered under the Friendly Societies Act 1974 cannot use this exemption.

The new threshold brings most clubs and associations into line with company reporting requirements.

Credit Unions

Credit Unions now fall within the scope of the Financial Services & Markets Act 2000 and are required to have an audit carried out by a registered auditor irrespective of size.

Registered Social Landlords

Registered Social Landlords (RSLs) generally include housing associations, housing co-operatives, almshouses and large scale voluntary transfers from local authority housing stock.

RSLs generally require audited accounts, irrespective of their size.

Under Schedule 1, Part III of the Housing Act 1996 there is a requirement for every association registered with the Housing Corporation to have an annual independent external audit by a registered auditor. This requirement also applies to associations which have not traded or are dormant.

Following amendments in the Housing Act 2004, small RSLs who are registered under the Friendly and Industrial Provident Societies Act 1968, the Charities Act 1993 or the Companies Act 1985 can use the audit exemption limits in those Acts. These small RSLs must provide accounts with an accountants' report to the Housing Corporation which still retains the right to require an audit to be carried out.

However, there are some small Social Landlords who are not registered with the Housing Corporation and are therefore not subject to its requirements.

When must a report be signed by a registered auditor?

For more details please refer to APB Practice Note 14 (revised).

Landlord and Tenant Act 1985 (LTA 1985)

Most private sector buildings are managed by agents of the landlord, a tenants' association or by a small residents' management company. They will usually decide (with the agreement of tenants) to dispense with the requirement for an external audit in order to keep costs down. Instead, the landlord or agent will offer to provide service charge accounts so that tenants can understand their annual service charge levy. An accountant may be engaged to prepare and provide an accountants' report on these accounts. It is very important that the accounts/accountants' report does not make any reference to compliance with the LTA 1985. The accountant does not need to be a registered auditor to carry out this work.

Service charge accounts prepared outside the LTA 1985 do not require an audit by a registered auditor.

If an individual tenant is not satisfied with the accounts prepared by a landlord, they may formally request that a statement of service charges be prepared in accordance with the LTA 1985. Some property leases, particularly in larger buildings, also specify that the service charge accounts should be prepared in accordance with the LTA 1985. If service charges are payable by tenants of more than four dwellings in a block, the summary under the LTA 1985 must be certified by a 'qualified accountant', in other words by a registered auditor. However, the work itself is not regulated audit work and is not governed by Auditing Standards. See *Audit & Beyond*, April 2006 for more details. Service charge accounting requirements will change considerably with the implementation of Chapter V of the Commonhold and Leasehold Reform Act 2002, although the actual implementation date of this is currently uncertain.

Accounts prepared in accordance with the LTA 1985 require a report to be given by a registered auditor.

The Association of Residential Letting Agents (ARLA) is a professional body concerned with the self-regulation of letting agents. ARLA members must comply with bye-laws covering the handling and accounting of client's money, a money protection and bonding scheme, professional indemnity insurance and a complaints and disciplinary procedure. ARLA does require the reports it requires of its members to be signed by a registered auditor. The Association of Residential Managing Agents (ARMA) is concerned with the management of long leasehold blocks of flats and operates on a similar basis.

Estate Agents

Estate Agents must comply with the Estate Agents Act 1979 which attempts to provide some consumer protection but does not regulate the estate agency profession. The Act is administered by the Office of Fair Trading (OFT). Section 14 of the Act requires that any 'person who receives clients' money in the course of estate agency' shall, without delay, pay the money into a client account.' This statutory client account must be maintained in accordance with the provisions of the Estate Agents (Accounts) Regulations 1981 and must be audited by a 'qualified auditor' (ie Registered Auditor).

A statutory clients' money account operated by an estate agent requires an 'audit' by a Registered Auditor.

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Members of the National Association of Estate Agents (NAEA) who receive non statutory clients' money such as receipts/ payments in respect of rental properties must maintain a separate client account and obtain an accountants' report which can be signed by any 'Chartered or Certified' Accountant.

Non statutory client accounts need an accountants' report by any qualified accountant

Similarly, accountants' reports for the Council of Licensed Conveyancers can be signed by members of the ICAEW, ICAS, ICAI, ACCA and AAPA provided they also hold a practising certificate.

Pension Schemes

Trustees are required to obtain audited accounts by a registered auditor within seven months of the year-end unless the pension scheme is exempt. Most defined benefit and money purchase schemes require audited accounts except for:

Most pension schemes require audited accounts.

- schemes with less than 2 members;
- death- benefit-only schemes;
- unfunded schemes (where pensions are paid directly from the employer company's assets);
- public service schemes;
- schemes not approved by the Inland Revenue;
- relevant ear-marked schemes which are those that hold investments only in the form of individually allocated insurance policies provided that all members are trustees and all decisions are unanimous; and
- money purchase, small (less than 12 members), self-administered schemes provided that all members are trustees and all decisions are unanimous.

Appendix 2 of APB Practice Note 15 (revised) gives further guidance on the requirements.

The Occupational Pension Schemes (Administration and Audited Accounts) (Amendment) Regulations 2005 apply to accounting periods commencing on or after 22 September 2005. These regulations allow exemptions for all schemes, both defined contribution and defined benefit, with less than 12 members, if:

The new regulations mean that pension schemes with less than 12 members no longer require audited accounts.

- all members are trustees (or trustee directors), and either
- the provisions of the scheme provide that all decisions which fall to be made by the trustees are made by unanimous agreement by the trustees who are members of the scheme; or
- the scheme has an independent trustee who is on the approved list maintained by The Pensions Regulator.

For more information see *Audit & Beyond* July/ August 2006.

EU, Environment Agency and DTI Grant Claims

These generally require certification by a registered auditor although it is important to check the grant instructions for the particular scheme being considered. See the ICAEW's Audit and Assurance Faculty's Technical Release, Audit 03/03 for more guidance.

National Lottery Grants

These generally require certification by a registered auditor although it is important to check the instructions for the particular scheme being considered.

Professional Bodies

The following professional bodies are known to require reports by registered auditors on their member's conformity, or otherwise, with the equivalent of their clients' money regulations:

- Solicitors – Law Society – (firms carrying out work in this area may wish to consider joining the ICAEW Solicitors Special Interest Group); and
- Chartered Surveyors – Royal Institution of Chartered Surveyors (RICS).

Some professional bodies require reports by registered auditors on their members' clients' money accounts.

In addition the Association of British Travel Agents (ABTA) require various reports/ confirmations in respect of the financial position of travel agents which need to be certified by the travel agent's auditor (where appointed) – see the Audit and Assurance Faculty's Technical Release Audit 02/02 for more details.

Smaller travel agents who do not need to appoint an auditor may submit accounts and other ABTA returns with an accountants' report by a qualified accountant.

Other Organisations

Other organisations currently requiring reports from registered auditors include:

- The Audit Bureau of Circulation (ABC) - see the Audit and Assurance Faculty's Technical Release, Audit 01/04;
- The Civil Aviation Authority (CAA) – see the Audit and Assurance Faculty's Technical Release, Audit 02/03.