



## A CREDIBLE CHOICE FOR YOUR FINANCIAL STATEMENTS

These options are open to any small company (as defined by the Companies Act). Medium and large companies are required by law to have an audit. Large charities are required to have an audit, but all medium-sized and some small charities can choose between an audit and an independent examination. If you are in any doubt about your options, check your status with a qualified accountant.

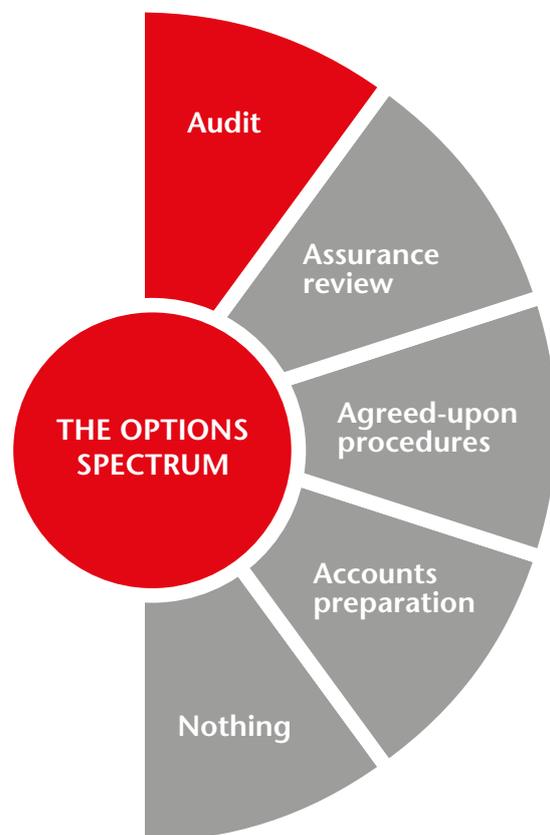
### What is it?

During an audit engagement a qualified accountant examines your accounts. This includes analysing changes from one year to the next, checking to see that your accounting processes are basically adequate, sample testing from the underlying information, and considering the evidence that makes up the audit trail.

An audit is usually carried out over the whole of the financial statements, but it can also be carried out over an aspect of the financial statements, such as debtors or creditors.

The accountant forms an opinion: are the financial statements wrong to an extent that would change the way people using them make decisions?

The opinion is presented in a report which is appended to your financial statements, so that everybody who reads them can see that an independent audit has taken place.



Overview

Audit

Assurance review

Agreed-upon procedures

Accounts preparation

# ASSURANCE OPTIONS: AUDIT

## You may need an audit if...

- As a business owner, you would like to have a second opinion on the activity of your finance function, or you have responsibility for the in-house finance function and would like to reassure your fellow owners of the quality and integrity of your work.
- Audited accounts are a contractual requirement in order to win work from a key customer. Local government contracts, or contracts with some larger entities, may include a requirement of this kind.
- Your business does not have an experienced finance team and you would like a second pair of eyes cast over your accounts to assure the quality of the information in your financial statements. Research carried out by Cardiff Business School in 2012 found that small companies without an audit were twice as likely to file amended accounts due to errors discovered after filing.
- You would like to reassure lenders and investors about the quality and integrity of your financial statements. Your bank has access to other information, particularly on your cash position, but a business angel or venture capitalist may appreciate the independent confirmation on your accounts.
- You are considering selling your business. A regular audit process over a few years builds up a track record of reliability for potential purchasers.
- Your organisation has a high profile in your local community, and you are aware that your accounts may be widely read. Extra credibility for your financial statements could be valuable.
- Due to your specific circumstances, an audit would not cost significantly more than an assurance review or a relevant agreed-upon procedure but gives the highest level of assurance.
- You are more comfortable with a regulated service that is subject to stringent quality control. An audit can only legally be performed by a qualified professional accountant, who must also be registered as an auditor.

## A different option may prove better if...

- The benefits of the highest level of assurance do not outweigh the extra cost. An audit is an intensive engagement with a broader scope than any of the other assurance options.
- The benefits of the highest level of assurance do not outweigh the extra time involved. An audit is likely to require more testing than any other assurance option.
- You have chosen to outsource your finance function and do not want to gain any further confidence over its operation.
- Your accounts have been prepared by a qualified professional accountant and this has given you confidence in their quality and integrity.
- You have some other way of providing assurance to interested people outside your business. For example, open book contracts might mean that your key customers have no need for further assurance over your accounts as they can visit and obtain what they need directly.
- You are looking for a very high number of other services from your accountant at the same time. Much of the value of an audit or review comes from the fact that the professional accountant providing it is seen to be independent.