



## IS AN AUDIT REQUIRED FOR A COMPANY?

Issued January 2016  
Last Reviewed March 2023

### INTRODUCTION

This helpsheet has been issued by ICAEW's Technical Advisory Service to help members understand when a company requires an audit under the Companies Act 2006 and potential routes to audit exemption.

Members may also wish to refer to the following related helpsheets:

- [Is a company or group small?](#)
- [Ineligible companies and groups](#)
- [Calculating employee numbers](#)
- [Balance sheet statements for small companies and LLPs](#)
- [Company size and audit exemption – complex examples](#)

### REQUIREMENTS FOR AN AUDIT

The Companies Act 2006 states that a company's annual accounts for a financial year must be audited unless the company is exempt from audit (s475). There are four potential ways to obtain audit exemption:

1. Small standalone company
2. Small member of a small group worldwide
3. Any sized company in a UK group with parent guarantee
4. Dormancy

Each of these potential ways to obtain audit exemption contains its own requirements and conditions which are explored in the following sections.

#### **Right of members to require audit**

Members of a company have an option under s476 of the Companies Act 2006 to require the company to have an audit. Where effective notice is given in accordance with this section, a company will not be entitled to claim audit exemption.

The notice must be given by:

- (a) members representing not less in total than 10% in nominal value of the company's issued share capital, or any class of it, **or**
- (b) if the company does not have share capital, not less than 10% in number of the members of the company.

The notice may not be given before the financial year to which it relates and must be given not later than one month before the end of that year. Notice must be provided each year.

### Articles and governing documents

The directors of a company should also review the company's articles and other governing documents in order to check whether they contain any specific provisions in relation to audit. A company, which otherwise would be able to claim audit exemption, may still require an audit if its articles contain such provisions.

## 1. SMALL STANDALONE COMPANY

If a standalone company (i.e. a company which is **not** a member of a group) qualifies as a small company in relation to a financial year (see [Is a company or group small?](#)) it may be exempt from audit in that year by virtue of s477 of the Companies Act 2006.

A company is **not** entitled to this exemption if it is:

- a public company;
- an authorised insurance company;
- a banking company;
- an e-money issuer;
- a MiFID investment firm;
- a UCITS management company;
- a company which carries on insurance market activity;
- a scheme funder of a Master Trust scheme within the meanings given by section 39(1) of the Pension Schemes Act 2017 (interpretation of Part 1); **or**
- a special register body as defined in s117(1) of the Trade Union and Labour Relations (Consolidation) Act 1992 (c. 52) or an employers' association as defined in section 122 of that Act or Article 4 of the Industrial Relations (Northern Ireland) Order 1992 (SI 1992/807 (NI 5))

Explanation of the financial services terms in the above list is available in the glossary at the end of the helpsheet [Ineligible companies and groups](#).

A company taking this small companies audit exemption under s477 will need to include a statement on its balance sheet as required by s475. Members may wish to refer to the helpsheet [Balance sheet statements for small companies and LLPs](#) for further guidance.

## 2. SMALL MEMBER OF A SMALL GROUP WORLDWIDE

A small company that is a member of a group, may also be entitled to the s477 small companies audit exemption. In addition to the requirements above for a small standalone company, a company which is a member of a group will need to consider the size of the **entire group** of which it is a member and whether any group member makes the group ineligible. This involves looking at those entities both above and below itself in the group, as well as those in different branches of the group structure.

Under the Companies Act 2006, s479 means that a company is **not** entitled to the exemption conferred by s477 (small companies) in respect of a financial year **unless**:

- the group qualifies as a small group (see [Is a company or group small?](#)), **and**
- the group was not at any time in that year an ineligible group (see [Ineligible companies and groups](#)).

A company taking this small companies audit exemption under s477 will need to include a statement on its balance sheet as required by s475. Members may wish to refer to the helpsheet [Balance sheet statements for small companies and LLPs](#) for further guidance.

See [Company size and audit exemption – complex examples](#) for more guidance.

### 3. ANY SIZED COMPANY IN A UK GROUP WITH PARENT GUARANTEE

Where a company is itself a subsidiary company and its parent is established under the law of a UK, then a company may wish to consider audit exemption by parent guarantee, the requirements for which are outlined in s479A of the Companies Act 2006.

There are a large number of requirements to meet in order to claim this audit exemption. For example, the parent's consolidated audited accounts must be filed at Companies House and all members of the company taking the parent guarantee must agree to the exemption in respect of the financial year in question. Where the consolidated accounts are prepared in a foreign language, a certified translation of those accounts must be filed.

ICAEW's [TECH 06/20 BL Exemption from audit by parent guarantee](#) provides further details on the requirements and answers FAQs on the topic.

A company taking this audit exemption under s479A will need to include a statement on its balance sheet as required by s475. Members may wish to refer to the helpsheet [Balance sheet statements for small companies and LLPs](#) for further guidance.

#### **Brexit**

For periods commencing prior to the end of the transition period (31 December 2020), the exemption under s479A of the Companies Act 2006 was available with a parent guarantee provided by a parent established under the law of an EEA state.

### 4. DORMANCY

If a company is dormant, it may look to take audit exemption under s480 of the Companies Act 2006. A company is only dormant during a period in which it has no significant accounting transactions (s1169) (see [Is a company dormant?](#)).

The conditions for audit exemption are that the company –

- (a) as regards its individual accounts for the financial year in question –
  - i. is entitled to prepare accounts in accordance with the small companies regime (see sections 381 to 384), **or**
  - ii. would so be entitled but for having been a public company or a member of an ineligible group, **and**
- (b) is not required to prepare group accounts for that year.

A company is **not** entitled to this exemption if it is:

- a traded company;
- an authorised insurance company;
- a banking company;
- an e-money issuer;
- a MiFID investment firm;
- a UCITS management company; **or**
- a company which carries on insurance market activity.

Explanation of the financial services terms in the above list is available in the glossary at the end of the helpsheet [Ineligible companies and groups](#).

A company taking this dormant companies audit exemption under s480 will need to include a statement on its balance sheet as required by s475. Members may wish to refer to the helpsheet [Balance sheet statements for small companies and LLPs](#) for further guidance.

## IF IN DOUBT SEEK ADVICE

ICAEW members, affiliates, ICAEW students and staff in eligible firms with [member firm access](#) can discuss their specific situation with the Technical Advisory Service on +44 (0)1908 248 250 or via [webchat](#).

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