

# Audit Services

## Services Available

- Statutory (Ltd Company) audit
- Audit in support of company purchase of own shares
- Audit in support of company giving assistance with purchase of own shares
- Charity audit
- Pension fund audit
- Voluntary audit

## Background

Many owner managers consider the statutory audit to be a waste of money, an overhead burden with no tangible benefits. Whilst it is true that audit was developed at a time when it was assumed that most companies would be owned and managed by different people, there are never-the-less a number of important advantages which flow from the audit. It is Hornbeam's policy to aim to maximize these advantages whilst minimizing the costs.

This is a summary of the advantages which are intrinsic to the audit:

- Third parties have confidence in audited accounts and, all else being equal, this makes credit easier to obtain, both from suppliers and also from banks.
- Management, including owner managers, can have additional confidence in the audited figures and in the accounting systems which can help with the management of the business.

This is a summary of the advantages which can flow from a commercially orientated audit:

- The auditor can work with the client to ensure that the client's systems work as cost effectively as possible to produce accurate and reliable information, both for management accounts and to keep the audit costs to a minimum.
- The auditor can check that accounting controls which seek to deter and detect employee fraud are effective in areas that the management consider vulnerable
- The auditor can check that the accounting policies about which the management have doubts are appropriate to the business.
- The auditor may be able to provide additional information for the management. Auditors are required to review analytically the accounting information and they may be able to perform an analysis which managers have neither time nor resources to conduct themselves. For example, an analysis of gross profit by type of product, and the movements over time would be very useful to both the management and the auditor.
- The auditor will be able to review the tax effectiveness of various accounting policies and different forms of business set up.
- In conducting his going concern review the auditor may be able to help the management prepare next year's budget and cash flow forecast.

## What is an Audit?

Hopefully we have persuaded you that an audit can be more than just an overhead expense. Now perhaps you may be a little more interested to know just what an audit is.

The Companies Act as amended requires that all companies exceeding two out of three of the following criteria must appoint a registered auditor and submit annual audited accounts to the registrar of companies within 10 months of the company year end:

1. Turnover not more than £6.5 million
2. Balance sheet total not more than £3.26 million
3. Not more than 50 employees

The International Standards on Auditing require an auditor to:

1. Carry out procedures designed to obtain sufficient appropriate audit evidence, in accordance with ISAs..., to determine with reasonable confidence whether the financial statements are free of material misstatement; (this is the basis of the 'true and fair view' opinion in clean audit reports).
2. Evaluate the overall presentation of the financial statements, in order to ascertain whether they have been prepared in accordance with relevant legislation and accounting standards; (this involves ascertaining whether proper accounting records have been kept and whether the presentation of the results is in accordance with the Companies Acts and Statements of Standard Accounting Practice, Financial Reporting Standards or International Financial Reporting Standards).
3. Issue a report containing a clear expression of their opinion on the financial statements.

The Auditor is appointed by the shareholders and reports to the shareholders, although his report may also be of interest to management and to outsiders. It is the directors responsibility to prepare and approve accounts. The directors may employ the audit firm to carry out some of their duties. This is not strictly part of the Audit and the Directors cannot delegate their statutory responsibilities in this area. The Audit firm will issue a separate contract for this work.

## **What is a Registered Auditor?**

European Community law requires that, "only persons who are properly supervised and appropriately qualified are appointed company auditors". The government delegated the supervisory process to the professional bodies. The DPEI have appointed the Auditing Practices Board to supervise Chartered Accountancy audit firms such as Hornbeam Accountancy Services Ltd. The Audit Practices Board maintain a register of those firms which are licensed to perform audits. This licence can be refused or revoked. Firms on the register must make an annual declaration of compliance with the Audit Regulations. Firms are also visited periodically by the Joint Monitoring Unit to ensure that they are complying with legislation, with Audit Regulations and with Statements of Auditing Standards. Recent changes in legislation have had a dramatic impact on the number of Auditors in the UK, making Hornbeam one of an elite few.

In short the Auditor operates within a very tight legislative and supervisory framework and has to comply with a large number of mandatory requirements in order to maintain their licence. So if sometimes we have to do things you do not like or do not understand then please ask and we will be happy to explain why we are doing this.