



Business and accountancy related matters

Introduction by Michael F. Dolan



I am very pleased to introduce the first article under the new partnership between the Institute of Certified Public Accountants in Ireland and Running Your Business magazine. Over the coming year we in CPA will be contributing an article each issue relating to your business and accountancy related matters, and I hope that readers will find these articles useful and informative.

We in CPA have an affinity with small and medium enterprises. We have partnered with the Small Firms Association since early 2005 in the provision of clear, easy to assimilate financial information bulletins for members of the SFA. We have a dedicated SME page on our website www.cpaireland.ie. We have made a comprehensive submission to the Small Business Forum addressing key issues facing the entrepreneurs of today – and we are pleased that some of these have been accepted by the Forum. We have made, and will continue to make strong representations to the Taoiseach and relevant Ministers on behalf of small businesses.

We believe there are some key issues which confront small businesses which need to be constantly highlighted. Chief among these is the level of regulatory burden faced by business – a burden which falls disproportionately on small businesses. Regulation is necessary, but over-regulation can be counterproductive and in this context we believe that in areas of commercial life we are in danger of becoming over-regulated. The consequences of such overregulation are that many regulations may fall, by default, into abeyance.

If regulation on business – particularly small businesses – is of such a volume that it is beyond the capacity of owner directors to comprehend – let alone implement – it, then the reality of life is that ad-hoc choices will be made. Quite whose interest this would be in is unclear.

We also believe that value for money in the public sector is becoming an issue, and if we don't get value for money the cost will fall on the taxpayer – both corporate and individual.

Our members serve many businesses in Ireland. Over 800 of our members are in public practice with businesses, large and small as their clients. Our members offer accounting and audit services, tax advice, and management consultancy services.

Over 2000 of our members work within businesses across all sectors of the economy. And finally, we have nearly 2000 student members engaged across all sectors of the economy.


As a consequence of this network I believe we have a unique insight into the operations of the Irish economy, and to the SME sector in particular. CPAs serve this sector well and accordingly I am very pleased to launch a further phase of this relationship through the publication of this series of articles for Running Your Business.

*Michael F. Dolan
President, Institute of Certified Public Accountants in Ireland.*


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The audit exemption

The annual audit gives rise to a burden on small companies

Companies have been obliged for many years now under Company Law to have an annual audit. This involves an independent 3rd party – a qualified auditor – reviewing the books and records of the company. The auditors report to the shareholders of the company – not the management or directors. The purpose of the audit is to provide shareholders with reassurance that the financial statements, as prepared by the management are a fair reflection of the financial affairs of the company. The audit may also be relied on by other stakeholders (providers of funds, suppliers, etc).

Company personnel who have been involved in an audit will have an understanding of the process. By definition it involves a lot of checking and cross referencing of company records. As a consequence it can be a time consuming (and, some would argue, costly) process. Some management personnel find it a frustrating process, not alone because of the time it takes up, but also the querying of some items, and in some cases, the difference of opinion which may arise between the management and auditor as to what practices will and will not be allowed. Many seasoned managers will have asked themselves – and their colleagues – if a particular item is likely to “get through the audit”. However, regardless of the differing opinions, it is generally acknowledged that most auditors take a reasonable, practical view of the world and that the views they take are in the best interests of the company and its shareholders. In fact, most company personnel take reassurance at the completion of an audit that all is well.

Because of the resources – both human and financial – required for an audit, there has been recognition in recent years that the audit gives rise to a burden, particularly on small companies. The upshot of this was that the concept of exempting certain companies from the requirement for a statutory audit was legislated for in 1999, and the exemption regime became effective for accounting periods ending on or after February 21st 2000.

The audit exemption – conditions

The Act sets down a number of conditions that a company must fulfil before the

exemption can be availed of. It is important to note that all of these conditions must be met. The conditions must be satisfied both for the current year and the preceding financial year, unless it is the first financial year of the company. The conditions are as follows:

1. The company is a company to which the Companies (Amendment) Act 1986 applies (a company limited by guarantee and which does not have a share capital may not avail of the exemption).
2. The company's turnover is less than €1,500,000 during its financial year.
3. The balance sheet total (total of gross assets) of the company does not exceed €1,905,000.
4. The average number of persons employed by the company does not exceed 50.
5. The company is not a bank or insurance company.
6. The company is not part of a group of companies (i.e. the company is not a parent undertaking or a subsidiary undertaking).
7. The company is up to date with its filing requirements.
8. The company is not one of a number of nominated types of businesses (typically insurance and financial services companies)

Unless it is the first financial year of the company, the company must have satisfied all these conditions both for the current year and the preceding financial year.

Availing of the audit exemption

Once the directors are satisfied that the company meets all criteria then they may proceed to avail of the exemption. The decision to avail of the exemption must be recorded in the minutes of the directors' meeting.

The directors should ensure that the company is not required by its Memorandum and Articles of Association to have an annual audit. The directors should also consider whether any

third party reporting requirements exist which require them to have an audit, for example a bank requirement as part of a loan covenant.

Rights of members of the company in relation to the audit exemption.

The Act allows members who hold ten per cent or more of the total voting rights to block the decision to avail of the audit exemption.

A notice by these members to block the decision to avail of the audit exemption must be served on the company in the year preceding the financial year concerned, but not later than one month before the end of that preceding year.

Right of existing auditor to be notified of decision to avail of exemption

Once the directors have decided to avail of the audit exemption they must formally terminate the appointment of the existing auditor.

A notice must be served on the auditor outlining the decision to avail of the audit exemption and their decision to terminate the appointment of the auditor.

When the auditor receives this notice s/he must write to the company stating whether or not any circumstances exist which need to be brought to the attention of the creditors or shareholders. A copy of this letter must be sent to the Companies Registration Office within 14 days of the notice being served on the company.

Preparation of financial statements in absence of audit

Even if the company avails of the audit exemption, it must still prepare financial statements, which give a true and fair view to be laid before the AGM and for submission to the Registrar of Companies. They must be prepared in accordance with the Companies Acts 1963-2005 and all accounting standards.

Thus the accounts of companies taking advantage of the audit exemption will differ from audited accounts in the following ways:



- They will not contain an audit report
- A statement must be made at the bottom of the company's balance sheet confirming the audit exemption has been availed of and that Directors are in compliance with the Companies Act.

Abridged Accounts

Availing of the audit exemption does not release one from the requirement to file abridged accounts with the Companies Registration Office. Therefore, an annual return, together with the abridged accounts must be filed in the normal manner

Advantages of availing of the audit exemption.

The main advantages in not having an audit are first, the time required by a Director dealing with the audit process can be applied to other areas of the business. This advantage will vary by company and is dependant on the

complexity of the audit, and the time required on the part of the Director.

The second advantage of not having an audit is that there may be scope for reviewing the fees, which in turn is dependent on the level of involvement of your auditor in the accounts process.

Advantages of having an audit.

Audited accounts may be required by lenders to or investors in the business as part of their terms and conditions. In a similar vein, audited accounts may be required to support the financial statements of the business when the business comes to be sold.

Additionally, a further advantage is the assurance that can be derived from knowing that a professional auditor has reviewed the business.

Can I find out, in advance how much the audit will cost?

Your auditor can explain the fee structure and how fees will be calculated.

Your auditor's letter of engagement will explain this. Please note that the fee will depend on the quality of business records available to the auditor.



In association with the Institute of Certified Public Accountants in Ireland

The Institute of Certified Public Accountants in Ireland is a statutory accountancy body, with almost 5,000 members and students. CPAs are active in practice and in management of all areas of the private and public sectors. For further information on how a CPA can help you contact us at 01-6767353 or www.cpaireland.ie

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