



## What is an Audit

A company is required to undergo an audit if it exceeds two of the following criteria:

Turnover surpasses £10.2 million.

Total assets amount to more than £5.1 million.

Employee count exceeds 50.

Even if a company falls below these thresholds, it might still require an audit if it belongs to a group that breaches specific size limits. Furthermore, certain circumstances, such as company articles or shareholder demands, may necessitate an audit, making it possible for even small companies to need one.

### What does an Audit entail?

An audit must be conducted by a registered auditor and must adhere to specific standards. It involves conducting examinations on the figures presented in the financial statements, typically through sampling transactions and balances to uncover material errors.

Additionally, auditors review the financial statements, including disclosures, to ensure compliance with accounting principles and legal requirements.

Once all assessments are complete, the audit opinion is communicated through a standardised report, which is included in the audited entity's financial statements. Any deficiencies in internal controls identified by the auditor are also conveyed to management.

### Internal Vs External Audit

Internal and external audits differ significantly despite their shared term. Larger organizations often employ both to continually scrutinize records, internal controls' effectiveness, regulatory compliance, and financial reporting.

Smaller entities might forgo internal audits due to cost considerations. To discern the disparity between the two functions, fundamental questions arise:



### **Internal Audit**

- Assess key risks, effectiveness of risk management, and control processes.
- Provide advisory recommendations to improve systems and controls.
- Scope includes financial and non-financial aspects, and may consider the company's reputation.
- Scope determined by management based on business objectives and risks.

### **External Audit:**

- Objectives defined by statute.
- Provide objective, independent examination to verify financial statements' accuracy and compliance with accounting standards.
- Increase value and credibility of financial statements, enhancing user confidence and reducing investor risk.
- Offer greater transparency to shareholders, highlighting important areas.

### The importance of an Audit?

Beyond the legal mandates, the audit process yields critical insights that are indispensable for any organisation. Here are several key points that elaborate on the importance and value derived from an audit:

#### **1. Assurance of Financial Integrity:**

An audit verifies the accuracy and reliability of financial statements, ensuring they present a true and fair view of the organisation's financial performance and position. This verification builds confidence among stakeholders, including investors, creditors, and management, about the integrity of the financial information.



## **2. Enhancement of Management Accounts:**

Regular audits provide assurance over the accuracy of management accounts, ensuring that the financial data used for strategic decision-making is reliable. This reliability is crucial for day-to-day operations, budgeting, and forecasting.

## **3. Identification of Systematic Errors:**

Audits can uncover systematic errors or discrepancies in financial records, which might have gone unnoticed throughout the year. Identifying and correcting these errors can prevent significant financial misstatements and potential fraud.

## **4. Evaluation of Internal Controls:**

The audit process involves a thorough review of an organisation's internal controls. Auditors assess the effectiveness of these controls and identify any weaknesses. This evaluation helps organisations strengthen their internal processes, reducing the risk of errors and fraud.

## **5. External Perspective and Expert Feedback:**

Auditors provide an independent, external perspective on the organisation's financial health and internal controls. Their expert feedback can highlight areas for improvement that management might overlook, leading to more robust financial practices.

## **6. Regulatory and Compliance Benefits:**

Audits ensure that the organisation complies with relevant accounting standards and regulations. This compliance is critical to avoid legal penalties and maintain the organisation's reputation.

## **7. Enhancement of Stakeholder Confidence:**

A clean audit report enhances the confidence of stakeholders, including investors, customers, and suppliers. It demonstrates that the organisation is transparent and committed to high standards of financial reporting and governance.

## **8. Improvement of Financial Practices:**

The audit process often results in recommendations for improving financial practices. Implementing these recommendations can lead to more efficient operations and better financial management.





## **9. Support for Strategic Decision Making:**

Reliable and accurate financial information, assured by an audit, is essential for making informed strategic decisions. It helps management evaluate past performance, plan for future growth, and allocate resources effectively.

## **10. Risk Management:**

Through the audit process, organisations can identify potential risks in their financial reporting and control environment. Addressing these risks proactively helps in mitigating potential issues before they escalate.

In summary, an audit provides an invaluable service beyond merely fulfilling legal requirements. It enhances the credibility of financial statements, strengthens internal controls, supports effective decision-making, and fosters overall organisational improvement.

## **More Audit FAQs:**

### **Different types of Audit**

In situations where a full statutory audit isn't mandatory, companies might explore other forms of assurance to bolster confidence in their financial position. An assurance review serves this purpose, offering both internal and external validation of financial statements. Depending on its scope, it can encompass the entire financial position or focus on specific areas of concern.

### **What is an 'Assurance review'?**

An assurance review evaluates all facets of financial data. Unlike an audit, it doesn't culminate in an opinion on the accounts but does enhance confidence in the financial statements. A report accompanying the financial statements indicates that a review has been conducted. Compared to the familiar statutory audit, an assurance review is less rigorous and offers greater flexibility.

An assurance review instils confidence among users of the financial statements, whether internal or external. Potential lenders, suppliers, buyers, or employees may find reassurance in encountering an assurance review report appended to financial statements.