What Is A Company Audit?

A company audit is when an independent party inspects your company's financial statements. A company audit gives anyone with an interest in your business, as well as HMRC, assurance that your financial statements are accurate and follow financial reporting standards.

The purpose of a company audit

The purpose of a company audit is to investigate a company's records, processes and procedures. Independent auditors are responsible for carrying out this investigation and issuing their opinion on the accuracy and compliance of a company's financial reporting. A misconception is that auditors are required to identify all misstatements. However, they are not required to identify all misstatements, only those that are material.

When do you require an audit?

An audit can be voluntary; however, if your company meets certain conditions, you are legally required to have an audit every year. If you meet any two conditions stated below, an audit is mandatory:

- Your turnover is greater than £10.2m
- Your total assets are greater than £5.1m
- You have more than 50 employees

If you operate in a strictly regulated sector like finance or insurance, you may still be expected to carry out an audit even if you don't meet these conditions.

The benefits of a company audit

Even if you don't legally require one, opting for a voluntary company financial audit has its advantages. Not only does it provide powerful insight into your company's financial position, but it also assures you that your financial statements are correct and free from malpractice.

An audit is the key to catching financial mismanagement, and fraud early. It also increases credibility with lenders, creditors, investors, and shareholders.

With their specialised expertise, auditors are able to offer recommendations to help you make informed decisions about your company's internal systems, controls and general operations. They are also well-positioned to provide advice that can help drive your company's success.

What happens during a company audit?

Although the process is likely to be different for each company and auditor, what happens during a company audit spans three stages: planning, fieldwork, and reporting.

Planning

In the planning stage, a formal audit plan is finalised. You engage with the auditing firm to iron out details such as the level of engagement, objectives and audit procedures.

Fieldwork

In this stage, your auditor will evaluate the effectiveness of your internal controls over financial reporting. They will perform tests of the details of your transactions and balances to gather evidence of their accuracy. When testing is complete, your auditor will discuss their findings with you.

Reporting

Finally, in the reporting stage, your auditor issues an opinion on whether your financial statements are presented fairly in accordance with accounting standards. If everything is above board, you'll receive a clean or unqualified opinion. Your auditor may also detail any other concerns and offer recommendations for improvement.

How to prepare for an audit

To prepare for an audit, effective planning is essential. Throughout the year, ensure that your records are accurate, well-organised and up-to-date. Finding the right auditor will also go a long way in making the process less stressful and imposing. With this in mind, working with an experienced audit firm that has a deep understanding of your industry and regulatory environment is crucial.

Maximizing the value of a company audit

Ultimately, a company audit can play a key role in helping you identify financial vulnerabilities and weaknesses in your internal procedures. Armed with this knowledge, you can increase your efficiency and take advantage of growth opportunities with confidence.