

*These notes refer to the Companies Act 2006 (c.46)
which received Royal Assent on 8 November 2006*

COMPANIES ACT 2006

EXPLANATORY NOTES

COMMENTARY

Part 16: Audit

Chapter 1: Requirement for Audited Accounts

720. This Chapter restates the existing requirement for company accounts to be audited, currently in section 235 of the 1985 Act, and the existing exemptions (except for the special provisions about charities).
721. The only changes from the existing law in this Chapter are the removal of special rules for the audit of the accounts of small charitable companies (see note on section 1175), and new provisions disapplying the requirement for audit in relation to certain companies in the public sector audited by public sector auditors.

Section 475: Requirement for audited accounts

722. This section restates the basic requirement for accounts to be audited, unless they are exempt. The obligation is now expressed as a duty on the company to have its accounts audited, whereas section 235 of the 1985 Act expressed it as a duty on the auditor to audit the accounts.
723. Directors must state in the balance sheet if they are taking advantage of an exemption. Unless the company is subject to a public sector audit, the statement must say that the members have not required an audit, and that the directors take responsibility for producing compliant accounts.

Section 476: Right of members to require audit

724. This section restates the right of members to require an audit, even if the company qualifies for one of the audit exemptions.

Sections 477 to 479: Exemption from audit: small companies

725. These sections restate the exemption from audit for small companies. Section 477 provides that a company must not only meet the general small company criteria in section 382, but its turnover and balance sheet totals must also fall below £5.6 million and £2.8 million respectively.
726. [Section 478](#) excludes from the exemption various categories of company including public companies and some financial services companies. Section 479 sets out the conditions for qualification for the small company exemption of a company which is in a group.

Sections 480 and 481: Exemption from audit: dormant companies

727. These two sections restate the exemption from audit available to dormant companies. “Dormant” is defined in section 1169. Certain financial services companies are excluded from using the exemption even if they are dormant.

Sections 482 and 483: Companies subject to public sector audit

728. These two sections, the only wholly new provisions in this Chapter, are intended to ensure that certain non-commercial, public sector bodies constituted as companies that are audited by a public sector auditor are not required to be audited under the Act.
729. [Section 482](#) exempts from Companies Act audit any non-departmental public body that is a company and is non-profit-making, if it is subject to public sector audit.
730. A UK body may be subject to public sector audit by virtue of an order under the Government Resources and Accounts Act 2000. The body in question will then be audited by the National Audit Office on behalf of the UK Comptroller and Auditor General. Under the Audit and Accountability (Northern Ireland) Order 2003, an order can make a body subject to audit by the Comptroller and Auditor General for Northern Ireland. Alternatively, a body may be subject to audit by the Auditor General for Wales under section 96 of the Government of Wales Act 1998, or an order under section 144 of that Act.
731. Some Scottish bodies are subject to public sector audit by the Auditor General for Scotland (AGS) under the Public Finance and Accountability (Scotland) Act 2000.
732. The companies exempted by this section are not subject to the Fourth Company Law Directive: the Directive is based on Article 44(2)(g) of the EC Treaty (formerly 54(3)(g) of the EEC Treaty), and Article 48 of the Treaty excludes from the scope of Article 44 undertakings that are non-profit-making. That is why *subsection (3)* gives “non-profit-making” the same meaning as in the Treaty.
733. *Subsection (2)* provides that a group company can benefit from this exemption only if every company in the group is non-profit-making. The effect of *subsection (4)* is that the exemption is not available unless the balance sheet contains a statement that the company is entitled to it.
734. [Section 483](#) confers a new power on Scottish Ministers to provide that a company should have its accounts audited by the Auditor General for Scotland (AGS). This is available for companies depending on their functions or their funding. The Scottish Ministers can designate a company under this power if its functions are public functions that are all covered by the Scottish Parliament’s responsibilities, or if the company receives all or most of its funding from a public body already audited by the AGS. In the latter case, the funding body may be audited by the AGS because it is covered by the Public Finance and Accountability (Scotland) Act 2000, or because it is itself a company that Scottish Ministers have made auditable by the AGS by a previous order under this section.
735. If an order is made under this section providing that a company should have a public sector audit by the AGS, and if that company is non-profit-making, then it will benefit from the exemption from audit in the preceding section.

Section 484: General power of amendment by regulations

736. This section provides a power for the Secretary of State to amend the provisions of this Chapter. Taken together with section 468, it broadly restates the power in section 257 of the 1985 Act. *Subsection (2)* enables the regulations to make consequential changes to other legislation. The power is subject to affirmative resolution if it is extending the requirement for audit, or otherwise making requirements more onerous; and to negative resolution otherwise.