

Audit Exemption in the Isle of Man



Requirements for audit exemption

A private company incorporated under the Isle of Man Companies Acts 1931-2004 which qualifies as an “audit exempt company” may, by members resolution, elect to dispense with compliance with the requirements of the Isle of Man Companies Acts 1931-2004 which relate to the audit of the accounts of companies. A resolution for the purpose of making such an election must be unanimously approved by 100% of the members of the company.

An election for audit exemption will only have effect in respect of the financial statements for the financial year in which the election is made and subsequent financial years. An election for audit exemption cannot have retrospective effect.

A company will only qualify as an “audit exempt company” in any financial year if:- EITHER

1. at least two of the following conditions are met:-
 - a) its turnover in that year does not exceed £5.6 million;
 - b) its balance sheet total does not exceed £2.8 million at any time during that year;
 - c) it employs no more than 50 persons at any time during that year;

OR

2. throughout that year, all its members are directors and it exists solely for the purpose of holding shares, securities, other investments or land.

If a period which is a company’s financial year does not consist of a continuous consecutive period of one full calendar year, the maximum figure in respect of turnover will be proportionately adjusted.

Failure to satisfy Audit Exemption criteria

If a company makes an election for audit exemption it will not have effect in respect of any financial year if, at any time in that year, the company fails to qualify as an “audit exempt company” or ceases to be a private company. In such a case, the company will lose its audit exempt status in respect of that financial year and subsequent financial years and will be required to have its accounts audited in accordance with the requirements of the Isle of Man Companies Acts 1931-2004. Accordingly, whether or not a company satisfies the criteria to qualify as an audit exempt company, must be closely monitored by the directors of the company at all times.

In order to re-gain its audit exempt status for any subsequent financial year, a further unanimous resolution of 100% of the members of the company will be required to reinstate the election for audit exemption (provided that the company is a private company and satisfies the criteria to qualify as an audit exempt company). Any such resolution will only have effect in respect of the financial statements for the financial year in which the election is made and subsequent financial years.

Safeguards for Members

A member of a company which has elected to be audit exempt may at any time by notice in writing

deposited at the registered office of the company require the rescission of the election for audit exemption.

Within 21 days from the date of the deposit of such notice, the directors of the company must appoint an auditor. Any such notice deposited by a member will only have effect in respect of the financial statements for the financial year in which the notice is deposited with the company and subsequent financial years. The notice cannot have retrospective effect.

Any previous resolution purporting to make an election for audit exemption will not have effect as an election in that financial year or subsequent financial years unless re-confirmed by a unanimous resolution of 100% of the members of the company at a subsequent general meeting of the company. If a unanimous resolution is passed to reinstate the election for audit exemption, the election will apply in respect of the accounts for the financial year in which the unanimous resolution for reinstatement of the election is passed and subsequent financial years.

Where a company has elected for audit exemption, copies of the financial statements sent out to every member of the company in accordance with the requirements of the Isle of Man Companies Acts 1931-2004 must be accompanied by a notice informing the member of the fact that the financial statements have not been audited and of the member's rights set out above to have the election for audit exemption rescinded.

Groups of Companies

A company incorporated under the Isle of Man Companies Acts 1931-2004 which is a member of a group of companies which is required to prepare consolidated group accounts under the Isle of Man

Companies Act 1982 (or would be so required save for any applicable exemption) can only elect to

become audit exempt if the group in aggregate satisfies the criteria for qualifying as an audit exempt company. There are provisions which apply for determining whether a company which leaves or joins a group qualifies for audit exempt company status.

Companies Act 2006

The ability for a company to be an "audit exempt company" and to elect to dispense with compliance with the requirements of the Isle of Man Companies Acts 1931-2004 which relate to the audit of accounts of companies only applies to private companies incorporated under the Isle of Man Companies Acts 1931-2004 and does not apply to companies incorporated under the Isle of Man Companies Act 2006.

The reason for this is because the Companies Act 2006 does not in itself impose any requirement upon a company incorporated under that Act to appoint an auditor, unless its securities are listed or admitted to trade on a securities market or exchange. However, any company incorporated under the Companies Act 2006 which is a member of a group of companies which is required to prepare consolidated group accounts under the Isle of Man Companies Act 1982 (or would be so required save for any applicable exemption) will be taken into account when determining whether the group in aggregate satisfies the criteria for qualifying as an audit exempt company.

Should you have any questions or requests for further information please contact:

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