

# Guarantee Companies - a warning

Brendan Howard outlines some pitfalls to be avoided

Many practices incorrectly perceive guarantee companies to be of low risk, often because they relate to small owner-managed property management companies or to small charities. The audit files of these entities are frequently selected during monitoring visits, and by ourselves in Mercia Ireland while conducting file reviews. The following disclosure requirements are worth taking note of:

## Disclosure requirements

- When auditing the financial statements of guarantee companies, the following items should be given special consideration:
- The fact the company is limited by guarantee should be clearly stated either on the front cover of the financial statements and/or with the company name at the top of the individual pages;
- The liability of members under the company's guarantee status should be disclosed in a note to the financial statements;
- The audit report should contain no reference to the requirement for an extraordinary general meeting under section 40 (1) of the Companies (Amendment) Act 1983;

- The accounts should not take advantage of the exemptions available to small or medium sized companies. As a company limited by guarantee is a public and not a private company, small and medium sized company law exemptions cannot be taken advantage of;
- The company cannot take advantage of the exemption in FRS 1, Cash flow Statements, not to produce a cash flow statement on the grounds that the company is small. As a company limited by guarantee cannot qualify as small under company law it cannot take advantage of the exemption;
- The balance sheet should not refer to shareholders' funds as there will not be any shares in issue;
- Particular care should be taken to disclose all related party transactions as required under FRS 8, Related Party Transactions.

## Statutory financial statements and filing requirements

As companies limited by guarantee cannot qualify as small or medium sized under company law (see above) the company must prepare and file full financial statements with

the Companies Registration Office. Abridged accounts may not be filed. Note also that guarantee companies do not qualify for audit exemption.

There is recent evidence of the ODCE reporting practices to their professional bodies in instances where abridged accounts were filed for guarantee companies.

The company will not be able to take advantage of the Financial Reporting Standards for Small Entities (FRSSE) as, not being a private company, it cannot qualify as small. Financial statements must therefore be prepared in accordance with Financial Reporting Standards (FRSs), Statements of Standard Accounting Practice (SSAPs) and Urgent Issues Task Force Abstracts (UITFs).

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