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UK **audit exemptions**
for companies forming
part of groups



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UK subsidiary companies that form part of groups are often unaware of the statutory audit requirements under UK law and how these rules apply to them

In this article, ZEDRA's Adam Wildbore and Ed Wallis look at when UK subsidiaries must prepare statutory audits, outline the key size-based and activity-based exemptions under UK law, and illustrate common pitfalls via a practical case study.

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Statutory audit requirement & size thresholds

All UK companies are required by law to undergo a statutory audit unless they meet specific exemption criteria tied to size.

These criteria apply both to the individual UK subsidiary and to the wider group of which it forms a part, whether that group is UK-based or international.

For financial periods ending after 1st April 2025, a company can claim audit exemption only if the UK company or its worldwide group doesn't exceed any two of the following three thresholds:

Threshold	Limit
Worldwide turnover	£15 million
Balance sheet total	£7.5 million
Average headcount	50 employees

Table 1

Turnover is pro-rated for periods longer or shorter than 12 months, whereas employee numbers are not pro-rated in the same way.

Companies in a group that do not use GBP (£) as their reporting currency have their balance sheet numbers converted into GBP (£) at the relevant prevailing exchange rate at the reporting period end and their turnover is converted into GBP (£) at the average exchange rate for the period.

It is our experience that most UK subsidiaries of internationally owned groups will exceed at least two of these limits and therefore will require a statutory audit.



Activity-based exclusions

Even if size thresholds are met, certain categories of company cannot claim audit exemption.

A UK subsidiary is ineligible if it is any of the following:

- | A public company
- | An authorised insurance company, banking company, e-money issuer, a Markets in Financial Instruments Directive (MiFID) investment firm, or a Undertakings for Collective Investment in Transferable Securities (UCITS) management company
- | A company carrying on insurance market activity
- | A scheme funder of a Master Trust scheme
- | A member of an 'ineligible group'



Group companies ineligible for exemption

A UK subsidiary will lose exemption if at any point during the financial year it belongs to an ineligible group.

An ineligible group includes any entity (UK or non-UK) that is:

- | A publicly traded company or a corporate body whose shares are admitted to trading on a UK regulated market
- | A person authorised under Part 4A of the Financial Services and Markets Act 2000 (c.8) to carry out a regulated activity
- | An e-money issuer
- | A small company that is an authorised insurance company, banking company, MiFID investment firm, or UCITS management company
- | A scheme funder of a Master Trust scheme

Case study | Group ultimately owned by a US company

The below example illustrates common pitfalls for an internationally owned group when they mistakenly believe they are not required to have their UK subsidiary audited:



Entity	Turnover	Gross Assets	Employees
Alma Inc (US parent)	\$120 million	\$70 million	250
Be UK Limited	£2 million	£1 million	15

Table 2

On its own, Be UK Limited would classify as 'small' and would not require an audit.

However, because its parent company, Alma Inc, breaches two of the size thresholds, Be UK Limited is considered part of a 'large' international group and must be audited in the UK.

In addition, no 'parent-guarantee' audit exemption applies since Alma Inc is not UK-domiciled.

Other commercial factors may override any audit exemption and mean Be UK Limited requires an audit, for example:

- | Shareholder agreements of Alma Inc may require an audit of Be UK Limited
- | Be UK Limited may have borrowings and requirements from lenders may stipulate an audit
- | The company is a material component of a wider group and group auditors request Be UK Limited is audited

Audit exemptions for UK-only group companies

UK subsidiaries of any size, with a UK parent established under UK law, may wish to consider audit exemption by 'parent-guarantee' exemption if they satisfy all of the following:

- | The UK parent company is required to give a guarantee over the subsidiary
- | All non-controlling shareholders in the subsidiary also consent to the exemption
- | The subsidiary is included in the parent's consolidated audited accounts
- | Those consolidated accounts, filed at Companies House, disclose that the subsidiary is audit-exempt by virtue of the s479A parental guarantee

Excluded from this option are traded companies and certain regulated financial entities such as authorised insurers and banks.

Although the ultimate UK parent must still audit its consolidated financial statements, however the above exemptions are in place to help reduce some regulatory burdens on the subsidiary companies.





Practical next steps

1. Assess your group's global turnover, assets, and headcount against the statutory thresholds at year-end.
2. Identify any public, regulated, or Master Trust-related entities that eliminate exemption eligibility.
3. For wholly UK-owned structures, evaluate the feasibility of a parent-guarantee exemption under section 479A.
4. Factor in commercial requirements from shareholders, lenders, and group auditors when determining audit needs.

How ZEDRA can help

Our team of corporate and global expansion experts in the UK have considerable experience in providing [audit, assurance and advisory services](#) across a diverse portfolio of UK companies and multinational businesses.

To find out more about all aspects of statutory or voluntary audits in the UK or for advice on corporate compliance, contact [Adam Wildbore](#) or [Ed Wallis](#).



The content of this document is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

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