Advantages

Accountability to external shareholder

1 This would be significant for Delhi Co for a number of reasons. The **first** is that the company now has an **external shareholder**, Robert Hyland, who is not part of the executive management team.

With this separation of ownership and control comes an increased need to hold the management of the company accountable to the external shareholders and having a full audit will provide a much stronger form of accountability.

Renegotiation of loan facility

bank loan

2 Second, Delhi Co has a bank loan facility which is due to expire in 2017. Given the ambitious expansion plans of Delhi Co, it is likely that the company will want to renew this facility and they may even seek to **obtain** more **loan finance**. If this is the case, it is very likely that the bank will seek a reasonable level of assurance over the financial statements.

By electing to have an annual audit now, it may avoid delays in 2017 when the company comes to renegotiate terms with the bank.

Reliability of information for internal decisions

3 Finally, the internal management team needs good quality information on which to base their operational and strategic **decisions**.

As the business grows and the significance of those decisions increases, it becomes more important that the management team has information that they can rely on.

Having fully audited financial statements, as opposed to a limited review, will increase the confidence of management in the **accuracy of the information used**.

Potential mandatory audit if company grows - MJ

As a rapidly expanding business the company may soon exceed the threshold and be subject to mandatory audit. If the company began to have their financial statements audited now while relatively small, the requirement to review the opening balances and comparative figures would be much less onerous in the first audit.

Overseas trading relationships - MJ

Delhi Co also plans to expand its customer base internationally. Having fully audited accounts may give potential customers increased confidence in the resources to satisfy their contractual obligations and thus improve their chances of forming new trade partnerships.

Review of internal controls - MJ

Often accounting systems of small companies soon become outdated and less effective as the company grows. A full audit may help them assess the effectiveness of their internal systems and any deficiencies identified by the auditor would be reported to management. However, the systems would not be assessed with a limited review.

RoM due to changes in accounting staff -MJ

The two new part-qualified accountants also increases the risk of misstatement of the financial statements due to the less competent and lack of familiarity with the company and the accounting systems. An audit, a more thorough investigation than a review, would be much more likely to identify misstatements.

Cost of full audit

Disadvantages

8 While an audit is a more thorough investigation, it is also more expensive than a review. For a small company an audit may be prohibitively expensive, whereas a review may be more affordable.

More invasive nature of audit

An audit is also **more invasive** than a limited review and would require the staff of Delhi Co to provide more information to the auditor and give up more of their time than would be the case with a limited review.

Given the relative inexperience of the accounts team, Mr Dattani may prefer to choose the less invasive limited review now and perform a full audit in the future when the team is more knowledgeable of the business.