

Audit Exemption Consultation and Accounting Framework - Response 15

From: Governance [mailto:Governance@icm.org.uk]

Sent: 13 December 2011 11:49

To: Audit Exemptions Consultation

Subject: BIS Consultation Paper - Audit Exemptions and Change of Accounting Framework

Dear Rufus

Please find attached the Institute of Credit Management's response to the Consultation Paper – Audit Exemptions and Change of Accounting Framework.

Kind regards

Danielle

Governance | | 01780 722912

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Email: julie.dalton@icm.org.uk

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12 December 2011

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RESPONSE OF THE INSTITUTE OF CREDIT MANAGEMENT TO THE BIS CONSULTATION PAPER - AUDIT EXEMPTIONS AND CHANGE OF ACCOUNTING FRAMEWORK

The Institute of Credit Management is the largest professional credit management organisation in Europe. Its members hold important, credit-related appointments throughout industry and commerce, and we feel it appropriate to comment on this consultation.

The response of our members is as follows:

Q1 What are your views on the overall principle of reducing audit requirements for unlisted companies?

The reduction of audit requirements for unlisted companies is a further step in the degradation of the information available to suppliers/creditors both through the increased thresholds for abbreviated accounting and the removal of audit requirements. Information is a key factor in maintaining the availability of credit, and audits are a means of making information more trusted and reliable. Furthermore, an audit is a valuable opportunity for businesses to obtain a third-party view of the accuracy and robustness of their financial records and status. Reducing audit requirements may carry unintended negative consequences. Furthermore, evidence to us suggests when seeking overdraft facilities from their bankers small companies are required to provide audited accounts.

Q2 A Do you agree about the underlying assumptions in our Impact Assessment that at least 60% of small companies now eligible will take up the audit exemption?

No relevant comment.

B Do you agree that the whole of the audit fee will be saved?

No comment, given our response to question 1.

C Do you agree that there is no saving of management time for small companies taking up the audit exemption?

No relevant comment.

Q3 Do you agree that the audit and accounting exemption for small companies should be aligned and a small company should be able to obtain the audit exemption if it meets two out of the three criteria?

We disagree with this proposal for the reasons set out in our response to question 1.

Q4 Do you agree with option B to exempt qualifying non-dormant subsidiaries from mandatory audit of their accounts?

It is difficult to see how an audit could be carried out on a parent company, or on a consolidated basis, without all the subsidiaries/associated companies being audited. Additionally, our members have concerns about the practical enforceability of guarantees across borders and jurisdictions.

Q5 Under Option C, what would be the effect of exempting qualifying non-dormant subsidiaries from mandatory preparation of accounts, mandatory filing of accounts and mandatory audit of accounts?

The movement of assets and liabilities between subsidiaries, particularly where they are the organisation with which a supplier or creditor is formally trading, can be a significant issue. Absence of financial information would further impede the availability of credit and impact on economic growth.

Q6 Do you agree that the Government should exempt qualifying dormant subsidiaries of whatever size from mandatory preparation, mandatory filing and mandatory audit of accounts? What difference would this make to your business and to the wider economy?

Dormant subsidiaries can carry significant assets or liabilities even when they are not actively trading. This proposal would be acceptable only if the stipulation was that there had been no movement whatsoever from the last accounts filed/audited, and a declaration to that effect.

Q7 A Do you agree that in addition to the Article 57 exemptions, in order to qualify, a subsidiary company should be unquoted, not involved in financial services or insurance and not fall into the category of certain other companies under industrial relations legislation, in line with the existing exclusions from the audit exemption in UK company law?

No comment, given our response to previous questions.

B Why? What difference would this make to your business and to the wider economy?

No comment, given our response to previous questions.

Q8 What would be the consequences (e.g. to investors, depositors or lenders or to the wider economy) of allowing financial services subsidiaries to take advantage of this exemption?

No comment, given our response to previous questions.

Q9 Do you agree that the same rules on exemptions for qualifying subsidiaries should broadly apply to Limited Liability Partnerships and unregistered companies?

Our views outlined above apply similarly to all types of business.

Q10 Do you agree with our estimate of the savings of the cost of the audit as detailed in the impact assessment, and in particular the underlying assumptions:

A That the average cost of the audit is in the range of £8,000 to £83,000 per subsidiary?

No detailed comment although the suggested range seems higher than we would anecdotally expect.

B That 75% to 100% of qualifying subsidiaries will take up the exemption?

No comment.

C That 10% to 25% of the audit cost of each qualifying subsidiary will be saved?

No comment.

Q11 Do you agree with our estimate of the saving of management time interacting with the auditor and in particular, with our underlying assumptions that for subsidiary companies the saving will be 5 hours of senior management time, which gives rise to £60 to £273 saving per company, depending on size of company?

No comment.

Q12 Do you agree with our estimate of the saving of the cost of management time to prepare and file qualifying dormant subsidiary accounts and in particular the underlying assumption of the £280 per dormant subsidiary?

No comment.

Q13 Do you agree with our estimate of the cost of taking legal advice of £110 per subsidiary in the first year only, but that if the Government provided guidance on an acceptable form of the guarantee, this cost of legal advice would be zero?

It is difficult to envisage how government could provide guidance in such a form that the need for specific relevant legal advice would be avoided. Furthermore, we reiterate our concern that the practical enforceability of guarantees across borders and jurisdictions could have significant impacts.

Q14 Have views of stakeholders expressed to the Company Law Review changed since 2000?

No comment.

Q15 Do you agree with the Government's conclusions on the likely impacts that would have been involved in exempting non-dormant qualifying subsidiaries from either preparation or filing of accounts and that the costs of such a proposal would likely exceed the benefits?

Yes.

Q16 Do you agree with the assumption that it is unlikely that the Government's proposals will have a significantly adverse impact on the number of small audit firms?

No comment.

Q17 Do you agree with the Government's assessment of the risks of the proposal?

Our concerns about the value and enforceability of guarantees has been outlined above, as have our concerns about the wider impact of these proposals. It should also be noted that accounts produced in different countries may differ from UK requirements making the value of a guarantee more difficult to assess.

Q18 Do you agree that the guarantee should be irrevocable and in respect of all debts in respect of that financial year? Until an audited set of accounts for the subsidiary is filed it will also be in respect of future debts incurred by the subsidiary.

We would certainly support option A over option B but have concerns that the guarantee will cease to be effective when "an audited set of accounts for the subsidiary is filed". If a creditor is relying on the guarantee, how would it know that accounts have been filed which might reveal a precarious financial state and leave that creditor seriously financially exposed.

Q19 Do you agree that the guarantee should cover the “debts” of the subsidiary and not extend to its “liabilities”?

We disagree with this proposal. If the parent company is not willing to offer the more onerous guarantee, its confidence in the subsidiary must be called into question.

Q20 A Do you agree with the proposals for the Guarantee?

We agree with the guarantee publicity proposals.

B Do you think the form of the proposed guarantee will encourage its take-up in line with our assumptions above (75-90%)? If not, why not?

No comment.

C Do you have alternative proposals that would not gold plate the Directive, provide adequate protection for those to whom the subsidiary owes a debt, but do not make it unlikely that the parent would issue such a guarantee?

No.

Q21 Do you agree that no new penalties should be proposed in conjunction with the introduction of these proposals?

Yes.

Q22 Do you agree that the Government should impose restrictions on companies' ability to move from IFRS to UK GAAP?

Yes.

Q23 How frequently should a company be able to move from IFRS to UK GAAP, unless there is a relevant change in circumstances? Every year, every 3 years, every 5 years, or never?

Certainly no more frequently than every 5 years. To allow more frequent changes would create confusion and inconsistency.

Q24 A Do you agree with the Government's estimate that 90% of eligible subsidiary companies will take up the option?

No comment.

B Do you agree that the saving for each company will be £569?

No comment.

Q25 Do you agree that the one-off cost per company will be £390?

No comment.

Q26 Do the proposed changes in any way increase the risk of financial irregularities? If so, what would you estimate the potential impact to be on investors?

No comment.

Q27 What is the risk that investors will be misled or confused by a company switching between accounting frameworks?

Change of accounting framework will inevitably lead to confusion hence our response to question 23.

Q28 Do you agree with the Government's assessment of the risks of this proposal?

No comment.

Q29 Do you agree that the proposals should apply to entities for financial years ending on or after 1 October 2012?

We disagree with the proposals and therefore have no comment on the timing.

The Institute was disappointed not to be included in the list of consultees given that its members are responsible for a significant proportion of trade credit which is the largest source of finance in UK business. We would be grateful to be added to the list of regular consultees for future consultations please.

Should you have any queries, please do not hesitate to contact me.

Yours faithfully

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