

Consultation on audit exemptions and change of accounting framework

Response form

The Department may, in accordance with the Code of Practice on Access to Government Information, make available, on public request, individual responses.

The closing date for this consultation is 29 December 2011.

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Please state YES in the box from the list of options that best describes you as a respondent. This allows views to be presented by group type.

Preparer: Large business (over 250 staff)	
Preparer: Medium business (50 to 250 staff)	
Preparer: Small business (10 to 49 staff)	X
Preparer: Micro business (up to 9 staff)	
Preparer representative body	
Accountants: over 500 UK Partners	
Accountants: 200 – 500 UK Partners	
Accountants: 100 – 199 UK Partners	
Accountants: 50 - 99 UK Partners	
Accountants: under 50 UK Partners	X

Accounting bodies	
Legal representative or professional legal bodies	
User representative bodies	
Academics	
Regulators and Government bodies	
Individuals	
Other (please describe)	

Question 1 (para 25)

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

Comments: SEE PARAGRAPHS 1 TO 5 OF THE
DOCUMENT ATTACHED

Question 2 (para 29)

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

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

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

A ☐ Yes ☐ No ☐ Not sure N/A
B ☐ Yes ☒ No ☐ Not sure
C ☐ Yes ☒ No ☐ Not sure

Comments: SEE PARAGRAPHS 6 TO 9 OF THE
DOCUMENT ATTACHED

Question 3 (para 33)

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?

☒ Yes ☐ No ☐ Not sure

Comments: SEE PARAGRAPHS 10 TO 14 OF THE
DOCUMENT ATTACHED

Question 4 (para 36)

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

☐ Yes ☒ No ☐ Not sure

Comments: SEE PARAGRAPH 15 OF THE
DOCUMENT ATTACHED

Question 5 (para 36)

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?

Comments:

SEE PARAGRAPH 16 OF THE
DOCUMENT ATTACHED

Question 6 (para 38)

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?

☐ Yes

☒ No

☐ Not sure

Comments:

SEE PARAGRAPH 17 OF THE
DOCUMENT ATTACHED

Question 7 (para 40)

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?

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

A ☐ Yes

☒ No

☐ Not sure

B Comments:

SEE PARAGRAPH 18 OF THE
DOCUMENT ATTACHED

Question 8 (para 40)

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?

Comments:

SEE PARAGRAPH 19 OF THE
DOCUMENT ATTACHED.

Question 9 (para 41)

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

☐ Yes

☒ No

☐ Not sure

Comments:

SEE PARAGRAPHS 20 AND 21
OF THE DOCUMENT ATTACHED

Question 10 (para 46)

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?

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

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

A	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	<input type="checkbox"/> Not sure
B	<input type="checkbox"/> Yes	<input type="checkbox"/> No	<input checked="" type="checkbox"/> Not sure
C	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	<input type="checkbox"/> Not sure

Comments:

SEE PARAGRAPHS 22 TO 24 OF
THE DOCUMENT ATTACHED

Question 11 (para 46)

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?

☐ Yes ☒ No ☐ Not sure

Comments:

SEE PARAGRAPH 25 OF THE
DOCUMENT ATTACHED

Question 12 (para 46)

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?

☐ Yes ☒ No ☐ Not sure

Comments:

SEE PARAGRAPHS 26 TO 27 OF
THE DOCUMENT ATTACHED

Question 13 (para 47)

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?

☐ Yes ☒ No ☐ Not sure

Comments:

SEE PARAGRAPHS 28 TO 29 OF
THE DOCUMENT ATTACHED

Question 14 (para 49)

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

☒ Yes ☐ No ☐ Not sure

Comments:

SEE PARAGRAPH 30 OF THE
DOCUMENT ATTACHED

Question 15 (para 49)

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 ☒ No ☐ Not sure

Comments:

SEE PARAGRAPH 31 OF THE
DOCUMENT ATTACHED

Question 16 (para 51)

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?

☐ Yes ☒ No ☐ Not sure

Comments:

SEE PARAGRAPH 32 OF THE
DOCUMENT ATTACHED

Question 17 (para 55)

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

☐ Yes ☒ No ☐ Not sure

Comments:

SEE PARAGRAPH 33 OF THE
DOCUMENT ATTACHED

Question 18 (para 59)

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

☐ Yes ☒ No ☐ Not sure

Comments:

SEE PARAGRAPH 34 OF THE
DOCUMENT ATTACHED

Question 19 (para 60)

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

☐ Yes ☒ No ☐ Not sure

Comments:

SEE PARAGRAPH 35 OF THE DOCUMENT ATTACHED

Question 20 (para 63)

A Do you agree with the proposals for the Guarantee?

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?

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?

A ☐ Yes ☒ No ☐ Not sure
B ☐ Yes ☒ No ☐ Not sure
C ☐ Yes ☒ No ☐ Not sure

Comments:

SEE PARAGRAPHS 36 + 37 OF THE DOCUMENT ATTACHED

Question 21 (para 65)

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

☐ Yes ☒ No ☐ Not sure

Comments:

Question 22 (para 76)

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

☒ Yes ☐ No ☐ Not sure

Comments:

SEE PARAGRAPH 39

Question 23 (para 76)

How frequently should a company be able to move from IFRS to UK GAAP, unless there is a relevant change in circumstances?

☒ Every year ☐ Once every 3 years ☐ Once every 5 years ☐ Never ☐ Not sure

Comments:

SEE PARAGRAPH 40

Question 24 (para 78)

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

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

A ☐ Yes

☐ No

☐ Not sure

NO COMMENT

B ☐ Yes

☒ No

☐ Not sure

Comments:

SEE PARAGRAPH 41

Question 25 (para 82)

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

☐ Yes

☒ No

☐ Not sure

Comments:

SEE PARAGRAPH 42

Question 26 (para 86)

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?

☐ Yes

☒ No

☐ Not sure

Comments:

SEE PARAGRAPH 43

Question 27 (para 27)

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

☐ High risk

☒ Low risk

☐ Not sure

Comments:

SEE PARAGRAPH 44

Question 28 (para 86)

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

☐ Yes

☒ No

☐ Not sure

Comments:

SEE PARAGRAPH 45

Question 29 (para 87)

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

☐ Yes

☐ No

☐ Not sure

Comments:

SEE PARAGRAPH 46
AUDIT CHANGES SHOULD NOT OCCUR
ACCOUNTING STANDARDS SWITCHES SHOULD OCCUR

Do you have any other comments that might aid the consultation process as a whole?

Please use this space for any general comments that you may have, comments on the layout of this consultation would also be welcomed.

SEE PARAGRAPH 47 OF THE
DOCUMENT ATTACHED

Thank you for taking the time to let us have your views. We do not intend to acknowledge receipt of individual responses unless you tick the box below.

Please acknowledge this reply ☒

At BIS we carry out our research on many different topics and consultations. As your views are valuable to us, could we contact you again from time to time either for research or to send through consultation documents?

☒ Yes

☐ No

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URN 11/1196

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The following is the response of Christopher Try FCA for and on behalf of Try Lunn & Co Chartered Accountants the the above consultation.

Question 1

Reducing the audit requirement for unlisted companies

1. Re paragraph 24 and the observations about extra costs being caused by extra financial reporting standards and changes in audit standards. These observations are true. It is a matter of regret that Auditing Standards (“SAS’s”) were replaced by the International Standards and that these in turn were replaced very shortly thereafter by the International Standards which included “Clarity”. Were the new auditing standards in all cases better than the SAS Standards? In a word – No.
2. If one takes the key audit issue of “Going Concern” and how an auditor has to respond to that in the current recession; all auditors with any knowledge have had to look back to SAS 130 for proper guidance. The International Auditing Standard on Going Concern is inadequate.
3. Likewise accounting standards and the FRC. Following the Enron scandal the FRC response included bringing in UITF 40 which requires businesses engaged in the service sector to adopt Enron style accounting and recognise revenue and profit before it has been earned. This FRC response was extraordinary and made no sense.
4. Moving on to what is actually going on in the real economy, and the risks and audit related consequences to them. What have we now learned about the £6.5 million turnover audit threshold? What has been learned is that in small businesses the lack of an audit leads to the real risk of fraud in particular by employees. What should now be done is that the £6.5 million turnover audit threshold should be reduced to, say, £1.0 million. If this was done the quality of financial information would be improved and the confidence of those businesses and those that rely on their financial information would be enhanced.

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5. There is no valid or rational case to reduce the audit requirements for unlisted companies instead the audit requirements should be increased i.e. as has been stated, the turnover threshold should substantially reduce.

Question 2

Alignment of the audit and the accounting exemptions for small companies

6. Of course the exemptions should be aligned. The non aligning of the thresholds is an unhelpful and stupid “trick” which appears to have been created simply to try and trip up and cause problems to ordinary straightforward and hard pressed owners, managers and professional advisors to small companies. The current misalignment is ridiculous.
7. Re A – BIS/FRC have the data to make the 60% assertion.
8. Re B – disagree, the actual apportionment of “audit” fees as opposed to “accountancy” fees in small and medium sized businesses in practice is rough and ready. The notion that the whole of the audit fees will be saved is naïve and perhaps indicates that BIS/FRC know little about this issue.
9. Re C – there will be no saving in management time.

Question 3

10. Re the question, whatever the criteria are for exemption and small companies – they should be aligned.
11. Paragraph 35 – the observations in this paragraph about the only creditors that matter being are HMRC and the banks are breathtaking in their apparent stupidity and total lack of awareness. Key and most frequent users of filed financial information are trade suppliers and trade customers. They use this information all the time to decide whether or not to trade with a company.

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12. But by far the most important users of audited financial information are the owners and managers of companies. During the year the owners and managers of companies have management information. After the year end they have the audited figures which are correct. They are the key user of audited financial information which confirms, or otherwise their management information. Owners and managers use the audited figures, and the confidence that comes from them, to evaluate and make the key decisions concerning their business.
13. Reduction in the cost of subsidiary company accounts etc. In the real world bad people exist. They are called Mr Madoff, or Mr Enron, or perhaps their name is Mr World Com. Anyone with any actual knowledge of business can name a few others of the same sort. There are also businesses that fail. This section of the BIS document is all about BIS wanting to make life easier for fraudsters, cheats, and those who run or own businesses that are failing and might wish to take more credit from suppliers, for longer than they should, so that when the business eventually fails the loss suffered by third party trade creditors and other creditors who are let down will be worse.
14. I cannot comprehend why BIS wants to make life easier for Mr Enron and his ilk. Why does it also want to make life easier for failing businesses? Why does BIS wish to reduce the protection of trade creditors? I do not understand why BIS wants to reduce the protection for trade creditors. But I recognise that this is what BIS wants to do. BIS considers that audits are worthless. I disagree. If economic failure results from the BIS policy the loss to UK plc has the potential to be huge.

Question 4

15. Exempting non dormant subsidiaries from mandatory audit – do you agree? No. There is no case for doing this. The proposal is insane. This proposal will be great for the Mr Enron's, the Mr Madoff's, other like cheats and fraudsters, etc. It will do nothing for UK Plc. It will do nothing for any ordinary trade creditor – i.e. trade supplier. It will damage the UK. If Mr Enron or Mr Madoff says a subsidiary is

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dormant will he tell the truth, or might he inadvertently overlook the fact that the company has traded? Audit clears that issue.

Question 5

16. Abolition of mandatory preparation of accounts and the filing of these. Those who propose this clearly do not believe in proper accounts or proper disclosure. I disagree with this proposition. I consider the idea is insane. One fully understands that those who propose these ideas are economic and commercial nihilists. It is alarming that this violent anti business and anti UK plc sentiment exist in BIS. Clearly these economic nihilists ideas that have taken root in BIS should be eradicated, either that or BIS should be shut down.

Question 6

17. Dormant subsidiaries of a group that is audited should be required to be audited. Will Mr Enron tell the truth about what is going on in his dormant subsidiaries? Will he? How are BIS confident that Mr Madoff or Mr Enron or all the other fraudsters can be believed? The financial statements of all dormant, and other, companies should be filed. A dormant company may have substantial intercompany balances, and/or adverse reserves. Without this information a group cannot be properly understood. All company financial statements should be filed.

Question 7

18. I disagree with the entire approach. The entire thrust of this paper and these questions will, if enacted harm the UK economy.

Question 8

19. Financial services subsidiaries should not be able to take advantage of any of the proposed exemptions.

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Question 9

20. The rules relating to LLP's should not be changed.
21. Paragraph 48 – parent company guarantees. The late Mr Robert Maxwell would have doubtless authorised whatever “parent company guarantees” suited his particular purpose at any time. The former Mr Enron would have signed them, so would Mr Madoff etc. etc. etc. The notion of parent company guarantees being a substitute for a proper audit is insane. The authors of those concepts clearly have learned nothing from the recent past. When tried, tested and correct procedures are got rid of you end up with a banking crisis. When rational economics is ignored you end up with the Euro crisis. Tried tested and correct procedures, like audits, should be reinforced and supported rather than abolished. BIS clearly comprehend nothing about business or the way the economy works.

Question 10

22. A – Audit cost. The BIS figures will be wrong.
23. B – I have no idea how many subsidiaries will take up the exemption. If the parent group is dominated by a Mr Enron or a Mr Madoff the audit requirement will be got rid of. If the group has a proper management it will want an audit to provide the group board with the assurance and confidence that nothing, in the subsidiary, is going wrong.
24. C – How much will be lost if, as BIS wish, as the UK becomes a preferred place of business for fraudsters to operate? Every person with intelligence or experience will know that these proposals will hurt the UK and are insane.

Question 11

25. Management time is wasted interacting with BIS and the “Elf and Safety” executive etc. etc. Management time is not wasted interacting with auditors. The savings BIS purport to have “identified” are miniscule and stupid.

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Question 12

26. Unless management prepare a set of dormant company accounts how does anyone know that the company is dormant? The BIS question is stupid. Suppose the company is run by a Mr Enron. Mr Enron states it is dormant. He files nothing. How will anyone, including the fiscal authorities, know the company is trading?
27. Paragraph 51 – “The Guarantee” – would that be the guarantee signed by the late Mr Robert Maxwell, or by Mr Enron or Mr Madoff? BIS says it wants to know about the cost of preparing such guarantees – for the UK economy, the cost will be massive and cause great economic and commercial damage.

Question 13

28. The BIS/Government analysis is ludicrous. BIS and Government are stating, in terms, that they know nothing. This is correct. BIS and Government clearly know nothing about the purpose and value of auditing.
29. Paragraph 52 is sensible and correct. Given this common sense why on earth is BIS wasting taxpayers’ money producing the rest of this paper which is otherwise composed entirely of ideas that are insane?

Question 14

30. The 2000 analysis and conclusions are correct and have not changed.

Question 15

31. BIS/Government clearly have negligible knowledge of this issue. Proper accounts have to be prepared for all corporate entities in the UK.

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Question 16

32. The proposals will have no impact on the number of firms of Chartered Accountants in the UK.

Question 17

33. The parent company guarantee is not worth the paper it is written on. What value does BIS place on a guarantee given by Mr Enron or Mr Madoff? The guarantees are of little value. The position of the creditors of the subsidiary will be prejudiced in all cases where the guarantee option is adopted. The proposal is mad, bad and very dangerous for UK plc.

Question 18

34. The Governments guarantee proposal is insane. It is designed to harm UK plc.

Question 19

35. The Governments guarantee proposal is insane. It is designed to harm UK plc.

Question 20

36. The Governments A and B guarantee proposals are insane. They will harm UK plc.

Question 20c

37. Given this paper, and its recent record, BIS should probably be abolished.

IFRS to UK GAAP

38. IFRS is not in my opinion as good as UK GAAP. Companies that have been forced to do IFRS should be given every opportunity to switch to UK GAAP.

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Question 22

39. Companies should be able to switch to UK GAAP.

Question 23

40. The move back to UK GAAP should happen whenever the need is considered to arise.

Question 24

41. A – No comment.
B – The cost estimate is ludicrous. The figure of £569 is not agreed. It is stupid.

Question 25

42. This cost estimate is ludicrous. Utterly ludicrous. It confirms – once again – that BIS appear to know nothing.

Question 26

43. Any extra risk of financial irregularities – none.

Question 27

44. Investors are confused by IFRS. They will be far better served with UK GAAP.

Question 28

45. The Governments assessment of risk is wrong.

Question 29

46. The audit changes should not occur. They are mad. The IFRS – UK GAAP proposals should be introduced immediately and without any delay.

The standard response form – and box ticking

47. BIS want to get rid of audit and consider the correct way to do it is by “box ticking”. BIS regard audits and the auditing profession with contempt. That contempt is reciprocated. The box ticking approach to this vitally important subject is yet further



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proof positive of the justification to abolish BIS to stop it causing further harm to the UK economy.

Christopher Try
December 2011