

17 January 2012

Mr Rufus Rottenberg
Audit & Accounting Team
Department of Business, Innovation and Skills
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London
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Delivered by email to: audconsult@bis.gsi.gov.uk

Dear Mr Rottenberg

Audit Exemptions and Change in Accounting Framework

The Chartered Institute of Management Accountants (CIMA) is pleased to have the opportunity to comment on selected questions in the above consultation paper as follows:

Question 1: What are your views on the overall principle of reducing audit requirements for unlisted companies?

CIMA agrees with the Government's view that every company requires robust financial controls and appropriate governance arrangements and for many companies audit will be a vital part of this. As already recognised in UK and EU law, the benefits of audit vary according to company size and we further agree with the government's assessment that there does not appear to be systemic risks to reducing the mandatory audit requirements for unquoted companies.

Question 2: 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? 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?

If audit firms are to lose business through a reduction in audit fees, there is a possibility that they will seek to recoup at least part of their losses by increasing other fees and in any audit required by lenders. It is therefore unlikely that the whole of the audit fee will be saved.

Question 3: 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 three criteria?

We agree that UK and EU law should be aligned in respect to the qualifying conditions for audit exemption i.e. a small company would be able to obtain the audit exemption if it met any two out of the three criteria relating to turnover, assets and number of employees.

Question 4: Do you agree with option B to exempt qualifying non-dormant subsidiaries from mandatory audit of their accounts?

In principle, we would prefer that UK law only imposes requirements over and above that required by EU legislation when absolutely necessary. In this case, we agree with the reasons for rejecting exemption for non-dormant qualifying subsidiaries from preparation and filing of accounts as set out in paragraphs 52 & 53 of the consultation paper and agree with option B.

Question 6: 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?

We agree with this exemption as the preparation and filing of accounts is unlikely to contribute additional information for the public record due to the lack of trading activity. Although often not significant this exemption will reduce administrative costs for those groups with dormant subsidiaries.

Question 22: Do you agree that the Government should impose restrictions on companies' ability to move from IFRS to UK GAAP?

We agree that directors should strive for consistency when selecting appropriate accounting policies and that this should be extended to the choice of accounting regime. Any decision to switch between IFRS and UK GAAP principles should only be taken for good accounting reasons not for instance on the basis of which portrays the financial position in the most favorable light. The current proposal from the Accounting Standards Board is that UK GAAP will substantially converge with IFRS principles and so we believe that the potential for arbitrage between the two systems will effectively disappear. On this basis we believe it is necessary that the Government should impose restrictions on companies' ability to move from IFRS to UK GAAP.

Question 29: Do you agree that the proposals should apply to entities for financial years ending on or after 1 October 2012?

Normally, we would prefer prospective changes to legislation so that there is clarity as to the relevant accounting and auditing requirements at the commencement of an accounting year. However, given the nature of the changes proposed and the likely affected entities, we agree that the proposals could be made effective for the accounting period current at the time the relevant changes in legislation are made. We agree with the government proposal regarding timing.

We would welcome further discussion with you on any of the points raised in our response to the consultation paper.

Yours sincerely



CHARLES TILLEY
Chief Executive