BIS | Department for Business Innovation & Skills

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.

Name: **Steve Martin – Head of Compliance & Regulatory Affairs**________

Organisation (if applicable): **Equifax Ltd** ________________________________

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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)	**YES**
Preparer: Medium business (50 to 250 staff)	
Preparer: Small business (10 to 49 staff)	
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	

Accounting bodies	
Legal representative or professional legal bodies	
User representative bodies	
Academics	
Regulators and Government bodies	
Individuals	
Other (please describe): Business Information Provider	**YES**

Question 1 (para 25)

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

We welcome the opportunity to comment on proposals based on the desire to ensure that British businesses are not disadvantaged relative to their European competitors

However, on this occasion we believe the overall principle of reducing audit requirements for unlisted companies may negatively impact the amount of financial data and surety of such data available to providers of trade credit, thus making such companies less willing to engage in commercial transactions. We believe such an effect should be considered in the cost benefit analysis versus the benefits of the reduced regulatory burden.

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
B	☐ Yes	☐ No	☐ Not sure
C	☐ Yes	☐ No	☐ Not sure

Comments:

No comment.

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:

Whilst the principle of aligning the audit and accounting exemption has merit, the practical effect of the proposed implementation is to increase the number of audit exempt companies by 36k. This represents a potential reduction in the quality and scope of

information in the public arena. This will likely have a negative impact on those companies by potentially reducing their access to trade credit facilities and therefore impacting their trading ability and growth potential. One alternative would be a modest decrease in the thresholds in the context of alignment.

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:

For the same reasons stated in the answers to questions 1 and 3 above, this will lead to a potential reduction in the quality and scope of information in the public arena negatively impacting the ability to for businesses to make trading and credit granting decisions with such companies.

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:

We believe the proposed changes for qualifying companies may negatively impact the amount of financial data and surety of such data available to providers of trade credit, thus making such companies less willing to engage in commercial transactions.
We believe such an effect should be considered in the cost benefit analysis versus the benefits of the reduced regulatory burden particularly in light of the recently reported levels of commercial fraud.

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:

The principle that non-dissolved companies should have a statutory obligation to file accounts should be maintained. Changes to this filing requirement will impose system change costs on business information providers as well as reducing the scope of information available to stakeholders and the general public.

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
Comments:

A) Yes, if this change is made we agree with the proposed exclusions. However, this does raise the issue of how financial services companies are defined.
B) Equifax believes that maintaining the maximum level possible of transparency of business information is in the interests of economic growth and the wider economy in general.

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:

No comment.

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:

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 ☐ Yes ☐ No ☐ Not sure
B ☐ Yes ☐ No ☐ Not sure
C ☐ Yes ☐ No ☐ Not sure
Comments:

No comment.

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:

No comment.

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:

No comment.

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:

No comment.

Question 14 (para 49)

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

☐ Yes ☒ **No** ☐ Not sure
Comments:

Equifax views are in line with those summarised in paragraph 52 c. We would note, however, that these caveats also apply to many of the other proposed changes that have the affect of reducing the level of information in the public arena.

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:

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:

No Comment.

Question 17 (para 55)

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

☐ Yes ☒ **No** ☐ Not sure

Comments:

In particular, we do not agree that little public information will be lost from omitting the requirement on dormant qualifying subsidiaries from filing accounts. This undermines the consistency of the level of business information available and could reduce users overall confidence in the value of Companies House data.

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:

However we believe it important that the scope of any guarantee should include trade creditors and not just "debts" as defined. We agree that it should also be in respect of future debts incurred by the subsidiary until an audited set of accounts for the subsidiary is filed.

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:

We believe the guarantee should extend to trade creditors in particular in the interests of maintaining economic activity.

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:

A) In principle we believe the guarantee concept introduces a new and unnecessary element of complexity into company reporting.

C) We believe the as a minimum the parent company providing the guarantee should be required to file consolidated accounts at Companies House.

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:

No comment.

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:

The constant switching between different accounting standards has the potential to undermine the comparability of financial performance data. For this reason we support restrictions.

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:

Equifax believes that once every 5 years to be the right period, unless there is a relevant change in circumstances. This strikes the right balance between enhancing the freedom of businesses to avail of any benefits of changing standards versus the impact on the comparability of financial performance data from too frequent switching.

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

B ☐ Yes ☐ No ☐ Not sure
Comments:

No comment.

Question 25 (para 82)

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

☐ Yes ☐ No ☐ Not sure
Comments:

No comment.

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:

Yes, we firmly believe that these proposed changes will increase the risk of financial irregularities and the potential impact on stakeholders would be a rise in levels of fraud.

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:

We believe this to be low risk if appropriate restrictions are in place as is being proposed.

Question 28 (para 86)

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

☒ **Yes** ☐ No ☐ Not sure
Comments:

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:

This would mean that changes to the Companies House bulk data products would likely be required in 2012. In light of the impact on users of the information and the likely necessity to implement system and process changes, the option of applying the proposals to entities for financial years beginning on or after 1 October 2012 would be more reasonable.

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.

In paragraph 66 reference is made to a potential amendment of the Annual Return Regulations. Any such amendment should be used to remedy an unintended consequence of previous changes whereby corporate shareholders are not required to provide their registered office address details. Equifax believe that as a minimum they should be required to state their country of incorporation in the interests of business information transparency and for the ability of business information providers to trace corporate trees.

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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