

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 - **Tim Ward, Chief Executive**
Organisation (if applicable) - **The Quoted Companies Alliance**
Address - **6 Kinghorn Street, London, EC1A 7HW**

Please return completed forms to:
Rufus Rottenberg
Spur 2, 3rd Floor
BIS
1 Victoria Street
London
SW1H 0ET

Telephone: 020 7215 0163
Fax: 020 7215 0235
email: audconsult@bis.gsi.gov.uk

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)	
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	Yes
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: We are supportive of this aim.

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

Comments: Not relevant to our members

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: Not relevant to our members

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: Our members would welcome any reduction in the cost of doing business in the UK for small and mid-cap quoted companies and their subsidiaries, provided that significant extra risk for investors or other stakeholders is not created. The current position that all UK subsidiaries of quoted companies require their individual statutory financial statements to be audited does not appear to provide any significant additional protection for investors in small quoted companies, but the cost for preparers can be significant.

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: As stated above, our members would welcome any reduction in the cost of doing business in the UK for small and mid-cap quoted companies and their subsidiaries, provided that significant extra risk for investors or other stakeholders is not created. However, an exemption from requirements to prepare and file accounts will only result in a significant cost saving if HMRC will not be requiring similar information to support tax compliance.

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: This would create a cost saving, and we do not anticipate any other significant effects.

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: It is not clear why the government would need to goldplate the Article 57 conditions. Listed companies are already subject to regulation by the markets on which they list, and those markets are best placed to determine what audit requirements are needed to protect investors.

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: In our view it is for the FSA (or other relevant regulator) to determine whether or not financial services subsidiaries would require an audit.

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

Comments: In our view the cost of audits and desire to take up the exemption will vary depending on the circumstances and we would not like to comment on these figures without doing further research of our own.

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: In our view the saving will vary depending on the circumstances.

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:

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: Even if the Government provided guidance on an acceptable form of guarantee we believe that many of our members would want to seek legal advice as to the potential risks of signing such a guarantee.

Question 14 (para 49)

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

☐ Yes ☒ No ☐ Not sure

Comments: See our response to question 5.

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: Not relevant to our members

Question 17 (para 55)

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

☒ Yes ☐ No ☐ Not sure

Comments: Although we do not see that the risks will be reduced by adding additional conditions to those required by Article 57.

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: The guarantee should be irrevocable but limited to all debts that exist at the end of the financial year in question. We believe that the perceived risks associated with a requirement to guarantee future debts would prevent a number of preparers from taking advantage of the proposed exemptions.

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: There must be greater guidance on the definitions of "liabilities" and "debts", in particular the differences. For example, if the guarantee is meant to be evergreen and a subsidiary loses a court case, a 'liability' turns into a 'debt' and is therefore now covered by the guarantee.

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

Comments: See our response to question 18

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: It is not clear what the benefit of such restrictions would be. There are real practical / cost restrictions to the ability of companies to switch accounting frameworks, and as a result we do not believe that a significant amount of tax arbitrage or cosmetic changes of accounting framework would arise. Also it is not clear whether the Government intends to retain the current Companies Act requirement for consistency of reporting framework in a group. Again, given the practical benefits of having consistency of reporting framework in a group, it is difficult to see why rules in this area are actually required.

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:

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

Comments: Many groups may choose to continue to use IFRS if this makes their consolidation process more efficient.

Question 25 (para 82)

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

☐ Yes ☐ No ☒ Not sure

Comments: The cost will vary greatly depending on the circumstances of the business.

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:

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:

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:

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.

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

© Crown copyright 2011

You may re-use this information (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence. To view this licence, visit <http://www.nationalarchives.gov.uk/doc/open-government-licence/> or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or e-mail: psi@nationalarchives.gsi.gov.uk.

This publication is also available on our website at <http://www.bis.gov.uk>

Any enquiries regarding this publication should be sent to:

Department for Business, Innovation and Skills
1 Victoria Street
London SW1H 0ET
Tel: 020 7215 5000

If you require this publication in an alternative format, email enquiries@bis.gsi.gov.uk, or call 020 7215 5000.

URN 11/1196