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23 December 2011

Mr Rufus Rottenberg
Spur 2, 3rd Floor
BIS
1 Victoria Street
London
SW1H 0ET

Dear Mr Rottenberg

Consultation on audit exemptions and change of accounting framework

Thank you for the opportunity to comment on the consultation paper on audit exemptions and change of accounting framework. Our responses to the specific questions raised by the Department for Business Innovation & Skills in its consultation paper are attached in the response form.

We support the overall principle of reducing audit requirements for unlisted companies particularly if those audit requirements are in excess of those currently required within the European Union and the rest of the world. However, it is important to emphasise that there are many benefits that derive from an independent audit and we are concerned that these benefits may have been overlooked in the focus that has been paid by BIS to the perceived costs of an audit in terms of audit fee and management time. In our opinion, the audit requirement should not be looked at purely in cost terms because this underestimates the vital role that audit plays in the oversight and governance of all sizes of companies. An audit provides investors, shareholders and management with trusted independent verification of an organisation's accounts, provides valuable insight into how well that business is being run and helps maintain business confidence by providing the market with reliable financial information.

Please contact me should you wish to discuss any of the points raised in this response.

Yours faithfully

H Morgan

Hugh Morgan
Technical Director
Baker Tilly UK Audit LLP

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 ______________________**Hugh Morgan**______________________

Organisation (if applicable) _____**Baker Tilly UK Audit LLP**____________

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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)	
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	YES
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)	

Question 1 (para 25)
What are your views on the overall principle of reducing audit requirements for unlisted companies?

Comments:

We support the overall principle of reducing audit requirements for unlisted companies particularly if those audit requirements are in excess of those currently required within the European Union and the rest of the world. However, it is important to emphasise that there are many benefits that derive from an independent audit and we are concerned that these benefits may have been overlooked in the focus that has been paid by BIS to the perceived costs of an audit in terms of audit fee and management time.

In our opinion, the audit requirement should not be looked at purely in cost terms because this underestimates the vital role that audit plays in the oversight and governance of all sizes of companies. An audit provides investors, shareholders and management with trusted independent verification of an organisation's accounts, provides valuable insight into how well that business is being run and helps maintain business confidence by providing the market with reliable financial information. Audited accounts are an essential facilitator of the day to day business of many companies; allowing them to trade with other companies by taking advantage of credit offered by suppliers and to pitch for new contracts with customers with whom they have no history. In many cases audited accounts are a prerequisite of any financing arrangements and form the cornerstone of many bank covenant arrangements and to do this they must continue to be reliable.

The BIS consultation does examine the potential costs that would arise from not having an audit. Even where the audit requirement is removed, companies will still be required to prepare accounts that are acceptable to the tax authorities and provide satisfactory information to their suppliers and providers of finance. A consequence of the audit exemption may be less reliable accounting information and the cost of additional work and management time required to satisfy tax queries and to negotiate with suppliers and finance providers. Our experience, particularly where we have taken on new audit clients that have previously been able to take advantage of the audit exemption, is that our first year audit often highlights deficiencies in the accounting performed by the previously unaudited company and in the quality of the disclosures in their financial statements. In some cases, these deficiencies have led to the accounts being restated through a prior year adjustment but in many cases the disclosures in the previous year's accounts are improved in the current year so that they more clearly comply with the requirements of UK GAAP and the Companies Act. There are costs to producing reliable UK GAAP compliant accounts but in our opinion for many companies these are outweighed by the benefits and many smaller companies will voluntarily elect to continue having an audit of their financial statements even though they may qualify for an audit exemption.

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:

A – For the reasons stated above, where we highlighted the benefits that accrue from an independent audit of a set of accounts, we do not believe that at least 60% of small companies now eligible will take up the audit exemption under the proposed rules.

B – We do not agree that the whole of the audit fee will be saved by companies taking the audit exemption. Unless they are dormant, and take advantage of the proposals for dormant companies, companies will still be required to file their accounts with the registrar of companies and the directors will be required to take responsibility for preparing the accounts. Although external "audit" time will no longer be required, this will be replaced by the directors and internal accountants within the company spending more time preparing the accounts. In a lot of small company audits directors may seek the assistance of the auditor to help them prepare the accounts and management may not have the expertise to take on this role. In addition, they will not have software set up to do this and it could therefore take a lot of their time to prepare UK GAAP accounts. Companies might find that a large proportion of the audit fee will be substituted by time spent by the directors and accounts staff preparing the accounts and although in some cases this will be outsourced to external accountants they will also charge a fee so the potential cost saving is overstated.

In group situations, there will still be a requirement for the group auditor of the consolidated accounts to audit the subsidiary numbers, albeit to a higher level of materiality, despite the fact that the subsidiary is audit exempt. For this reason we believe that, if the subsidiary numbers form part of the audited group financial statements, a decrease in the subsidiary audit fee will be compensated in part by an increase in the group audit fee and is difficult to see any group scenario where the whole of the audit fee will be saved.

C – We do not agree that there will be no saving of management time for small companies taking up the audit exemption. It is likely that, in a lot of cases, there will be some saving of management time but for the reasons given above we think that the savings are overstated when there will still be a requirement for the directors to prepare true and fair financial statements that comply with the Companies Act.

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:

No further comments.

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:

In our opinion, although there may be limited benefits in permitting certain wholly-owned subsidiary companies to take advantage of the audit exemption, the potential cost savings of such a regime must not be overstated and we fear that they may outweigh the benefits.

Group audits will still be performed and subsidiary companies will still have to provide detailed information to group auditors for the purposes of their audit of the group numbers. Where auditors have adopted a traditional building block approach, auditing the subsidiary numbers first and then auditing their aggregation via the consolidation, this will no longer be possible if the subsidiaries are not audited and our concern is that unless auditors adapt their approach and revisit compliance with ISA 600, the group audits performed will not comply with ISAs.

A further issue relates to SMEs that are also subsidiary companies but have a parent that is not a member of an EU state. Under the existing regime small companies that were also a subsidiary were able to take the audit exemption if the group they were part of also qualified as small. This was irrespective of where the parent company was registered ie it did not have to be in the EU, and did not require that a parent company guarantee was obtained. Under the proposed audit exemption regime there could potentially be an inequality so that a subsidiary company with a parent in the EU would be able to take the audit exemption but an SME subsidiary company with a parent outside the EU would not, eventhough under the previous regime they would have been eligible for the exemption.

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:

In our opinion exempting qualifying non-dormant subsidiaries from preparing and filing accounts, in addition to allowing them to take advantage of the audit exemption, would greatly increase the risk of fraud and error because there would be no independent check on the accounts of the subsidiaries concerned.

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:

As stated in our answer to Q5, there is a very real danger that exempting qualifying dormant subsidiaries of whatever size from mandatory preparation, mandatory filing and mandatory audit of accounts will lead to increased fraud and error with the result that business confidence will be adversely affected. In our opinion, the existing requirement that allows dormant subsidiaries to take advantage of the audit exemption but still requires preparation and filing of accounts is still appropriate and we see no reason to change. The risk of fraud and error will increase greatly if accounts are not filed and we are very concerned that the audit exemption will be taken where it does not apply. Currently directors filing dormant accounts have to take responsibility for the accounts by making a statement on the balance sheet. If no accounts are prepared then we question who is taking this responsibility. In our view limited liability comes at a price and for a dormant company this is the requirement to continue to prepare and file the accounts. If the annual discipline of preparing and filing a set of accounts is removed it would need to be replaced by some sort of filing where the directors take responsibility for the accounts of the company – maybe in the form of an enhanced annual return.

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**: In our opinion, the existing exclusions remain appropriate and the audit exemption should not be diluted to include companies where the potential public interest involved outweighs the relatively small cost of an audit.

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 opinion, without the discipline of an audit the quality of financial information available to investors, depositors or lenders will decline and they will be exposed to losses as a result of relying on incomplete or inaccurate information or from fraud and it is likely that business confidence will be severely damaged. The reasons for requiring audits of financial services subsidiaries are just as valid now as they ever were and unless audit is replaced by something else, such as FSA inspection, then we believe that it is not in the public interest to remove the audit requirement from these companies.

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:

No further 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:

A – In our opinion, based on years of experience auditing the size of company that might take advantage of the audit exemption, we do not believe that the average cost of an audit for companies that might be affected by these exemptions is in the range £8,000 to 83,000. It is unhelpful for BIS to include a cost range that is so wide but in our view the average cost of an audit for the size of company that might take these exemptions should be more in the £3,000 to £6,000 range and not higher.

B – For the reasons expressed in our answer to the questions relating to the parent company guarantee we do not believe that, for the sake of saving the cost of an annual audit, parent companies will be prepared to sacrifice the ring fenced security of a limited liability subsidiary for an irrevocable guarantee of that subsidiary's debts that the BIS proposal for a guarantee will have to entail.

C – We have no data on which to base this conclusion but it does not seem unreasonable to conclude that 10 to 25% of the audit costs will be saved if an audit of a subsidiary company is no longer required. These may however be replaced by other assurance costs and increased audit costs at the group level where subsidiaries are exempted.

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:

We have little basis on which to dispute the BIS conclusion but based on our knowledge of companies that might be affected by these proposals we disagree with the BIS estimate of the saving of five hours of management time interacting with the auditor per company.

If BIS are referring to subsidiary companies where the auditor also audits the group accounts then the time spent by management time interacting with the auditor at the subsidiary level is relatively minimal and five hours may well be too high as the audit effort and management time is usually put into the group accounts and the issues are surfaced and dealt with at that group level. There are often very few issues arising at the subsidiary level and if so these are usually dealt with as part of the group audit which will continue to be the case even if the subsidiary is no longer audited but continues to be included in the group accounts.

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:

As above we have little basis on which to dispute the BIS conclusion and cannot speak for management but if the question is referring to ongoing dormant subsidiaries then there would be very little management time involved in the preparation and filing of the dormant accounts. If dormant then by definition the accounts would be the same as the previous year so the estimated costs saved of £280 per company appear to be too high.

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:

In our opinion, even where the government provided guidance on the acceptable form of a parent company guarantee, parent companies will still want to consult their lawyers over the suitability of the guarantee in relation to their particular circumstances and we do not believe that the cost of legal advice would be zero. It might be that £110 is a reasonable figure for the cost of legal advice if averaged out over a very large group. On a stand-alone subsidiary basis the cost of £110 quoted for legal advice on the acceptability of a parent company guarantee is unrealistic given our experience of legal firms and is far too low even for a relatively simple situation.

Question 14 (para 49)

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

☐ Yes ☒ No ☐ Not sure

Comments:

No further comments.

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:

As noted in our response to question 5 above we do not agree with the proposal to exempt non-dormant qualifying subsidiaries from either preparation or filing of accounts. The costs of such a proposal, which would include increased incidence of fraud and error and damage to business confidence, would very likely exceed the benefits represented by the saving of audit costs and management time involved in preparing and filing accounts.

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:

If the question is interpreted as meaning the impact of the proposals on the number of small audit firms signing audit opinions then it is likely that the proposals will have a significant impact on the number of firms signing audit opinions. There are a lot of small audit firms that just have one or two audit clients and it is likely that if these companies fall out of the audit requirement and take advantage of the audit exemption those audit firms will no longer perform audits under the new regime. Many of these firms will still maintain the RI status of their audit principals in order to sign off other types of work, for example that related to Solicitors Accounts Rules, and in many cases the audit work will be replaced by other work for the client so the overall impact on the firms may be minimal but in our view they will no longer be "audit firms" because they no longer perform audits.

An unwanted consequence of this could be that the quality of the audits being performed by the remaining smaller audit firms will suffer as they will be performing fewer audits. It is more difficult for audit firms that perform only a very few number of audits to maintain the expertise and knowledge of standards necessary to sign off an ISA audit and in our opinion the quality of audit work performed by remaining smaller firms may suffer. The reduction in the number of smaller audits may also have an impact on the ability of smaller firms to provide sufficient training to auditors working with them on training contracts and smaller firms may have to give up their role as training firms with the consequence that auditor training will be more narrowly provided by the larger firms who will be unable to offer trainees experience of the issues at the smaller end of the market.

Question 17 (para 55)
Do you agree with the Government's assessment of the risks of the proposal?

☐ Yes ☒ No ☐ Not sure

Comments:

In our view the Government seems to dismiss the issue of the quality of the unaudited financial statements. As noted before, our experience where we take on the first year audit of a company that has newly breached the audit threshold is that the disclosure in the prior year accounts is often inadequate. In some cases this results in a prior year adjustment to correct fundamental accounting errors in the prior year accounts but in the majority of cases the accounts need a lot of work on disclosures before we are in a position to conclude in our audit report that they show a true and fair view and are prepared in accordance with UK GAAP. The Government should not overlook the issue of the quality of the financial information that will be available in the market and the damage to business confidence that will result from reliance on poor quality financial information. In addition, poor quality and unreliable statutory accounts are often an indicator that the underlying management accounts which companies use to run their business may also be flawed and this could lead to going concern problems when the directors make decisions based on inaccurate information

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:

We agree with the proposal that the guarantee should be irrevocable and in respect of all debts in respect of the financial year. However, the main issue is that the guarantee must be legally binding because, without that, it will be worthless and no company will place reliance on it.

We are concerned with the suggestion that the guarantee would stay in place until a set of audited accounts is filed for that subsidiary. In our opinion, a guarantee could quickly become out of date and the parent should assess the level of debts of the subsidiary at each year end and have an annual renewal of the guarantee for the debts that exist at that year end rather than an ongoing guarantee of the debts of the subsidiary.

The form of the guarantee has not been set out, but presumably to make this option attractive to business it would need to be well defined in scope and coverage and have the backing of law. Arguably, an effective guarantee offers better protection to the creditors of a subsidiary company than a set of audited accounts, which might be over a year old at the time of a transaction with the company, so might be encouraged in the public interest. We do however question how the guarantee would work in practice and whether preference would have to be given to the creditors of the subsidiary company over the creditors of the parent. We also question the enforceability of a guarantee provided by an overseas parent company and believe that these sorts of issues will make the guarantee unworkable in practice.

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:

Although we accept that a guarantee should not be a blank cheque we do not believe that it is appropriate for the guarantee to exclude liabilities. FRS 12 defines liabilities as "obligations of an entity to transfer economic benefits as a result of past transactions or events". [FRS 12 paragraph 2]. In our view obligations resulting from past transactions or events such as warranties or contingent liabilities should be covered by a parent company guarantee and it is unreasonable to ask companies to rely on a guarantee that excludes liabilities resulting from past transactions or events. This may make it harder to agree the parent company guarantee but will make it more effective when it is agreed. Often group borrowings are covered by complex cross-guarantee arrangements with some companies within the guarantee net and others ring-fenced on the outside and the Government's guarantee proposals may undermine existing cross-guarantees making it more likely that companies will seek legal advice before entering into any future 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	☐ Yes	☒ No	☐ Not sure
B	☐ Yes	☒ No	☐ Not sure
C	☒ Yes	☐ No	☐ Not sure

Comments:

A – We do not agree with the proposals for the guarantee. In our view an effective, irrevocable and legally binding parent company guarantee might offer better protection to the creditors of a subsidiary company than a set of audited accounts that might be over an year old when a transaction takes place. In this regard a parent company guarantee in the place of an audit might be encouraged in the public interest but we believe that the guarantee proposed in the BIS paper is inadequate.
As stated above, we do not agree that the guarantee should be limited only to the debts of the company and believe that it should be extended to the liabilities of the company. We also do not agree that the guarantee should remain in place until an audited set of accounts for the subsidiary is filed. In order for the guarantee to be effective it has to be updated each year so that anyone relying on the guarantee can derive some comfort that the guarantee reflects the current status of the parties concerned. A parent company's ability to meet a guarantee may

decline overtime and anyone transacting with a subsidiary and relying on a parent company guarantee needs to know that the guarantee is current and is capable of being honoured if called. The directors of the subsidiary company also need to be confident that the parent company guarantee is current before they take advantage of the audit exemption. For this reason, we recommend that each year when the decision to take the audit exemption is taken the parent company guarantee is renewed in writing between the parent and subsidiary companies and this is disclosed in the accounts of both the parent and subsidiary companies.

B – As noted above, we do not believe that parent companies will be willing to guarantee the debts of their subsidiary companies in a form that is legally binding and irrevocable. To do so would mean that they were effectively doing away with the limited liability of the subsidiary companies and offering them a blank cheque. For this reason, we do not think the form of the proposed guarantee will encourage 75-90% take-up in line with the BIS assumptions and in our view take up will be significantly less.

C – We do not have any alternative proposals that would provide adequate protection for those to whom the subsidiary owes a debt without gold plating the Directive and making it unlikely that the parent would issue such a guarantee. Adequate protection requires a guarantee that is legally binding but in our view parent companies will be unwilling to enter into legally binding agreements.

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 further 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:

We agree that there is a benefit from imposing some restrictions on the ability of companies to change their accounting basis; however, the current level of restriction is unduly stringent and rather than doing away with restrictions we recommend that the list of restrictions should be extended to make it easier for companies to switch between IFRS and UK GAAP but maintain some level of control. In practice we would not expect companies to alter their accounting basis without a strong reason for doing so and this will usually be linked to a change in the company's circumstances. There is a strong argument for not imposing too stringent restrictions because the cost of switching between regimes is costly and this will effectively self-police the choice of GAAP. We do not agree with the phrase preceding paragraph 83, 'there are additional benefits of companies being able to move regularly between IFRS and UK GAAP'; companies may benefit from being able to move when necessary between GAAPs but it is not desirable for them to move regularly.

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:

Please see our answer to question 22 above. In our view there is some benefit from imposing restrictions on the ability of companies to change their accounting basis and we have recommended that the list of restrictions should be extended to be less stringent and make it easier for companies to switch between IFRS and UK GAAP whilst maintaining some level of control. We do not consider that an arbitrary time based criterion is appropriate because it does not take into account that there may be perfectly valid reasons for a company changing their accounting base and it is not appropriate to set a time-based limit on 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:

A - In our view there will be good reasons why many subsidiary companies will be preparing IFRS accounts and they will not want to change just to get simpler subsidiary accounts.

B – We have no data from which to draw a conclusion on the cost savings each company will achieve as this will depend upon whether it currently reports under UK GAAP or IFRS. It might be that IFRS consolidation adjustments are no longer required because the subsidiary was previously reporting under UK GAAP or that disclosures can be reduced for IFRS subsidiaries that switch to UK GAAP. However, if the reasons for switching are valid then we believe that the savings are likely to be significant and may well exceed £569 per annum for some companies.

Question 25 (para 82)

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

☐ Yes ☐ No ☒ Not sure

Comments:

As stated above, we have no data from which to draw a conclusion on the cost of switching between IFRS and UK GAAP. However, in our view, changing GAAP can be a complex exercise and it is likely that one-off costs of switching will be significantly more than the £390 quoted above particularly if the company is changing from UK GAAP to IFRS.

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:

As stated above, if the restrictions on switching regime are relaxed we do not believe that there would be an increased risk of financial irregularity. The costs of switching are very high and this will act as a natural barrier to change and because we believe that, in most cases, there are good reasons for companies switching regimes, rather than a desire for some small short arbitrage gain, companies will not switch very often.

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:

There is a risk that comparability can be reduced by switching the accounting framework between IFRS and UK GAAP and therefore we believe that such changes should be minimised. As noted above, rather than a time based restriction which we do not feel is appropriate, BIS should extend the reasons allowed for switching between IFRS and UK GAAP so that it is less restrictive.

Question 28 (para 86)

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

☒ Yes ☐ No ☐ Not sure

Comments:

No further 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:

As stated above, we support the overall principle of reducing audit requirements for unlisted companies and would recommend that, provided the Government publishes the requirements in sufficient time to enable companies to prepare and for shareholders to consider whether the company needs an audit, the changes should be implemented as soon as possible. As long as the new requirements are published in time to allow this we have no objection to the proposed starting date of financial years ending on after 1 October 2012..

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.

Our only other comment is that, in our opinion, the detailed breakdown of costs given in the consultation paper and impact assessment detracts from what BIS are trying to do in avoiding any gold plating of EU regulation. We should be applauding the move to greater consistency within the EU and a reduction in the burden on SMEs but instead we are asked questions about the figures and costs and inevitably we have reservations about the numbers quoted. We believe that the consultation has focussed wrongly on the perceived cost and burden of an audit when there are huge benefits from an independent audit which are not mentioned. The availability of higher quality and more reliable financial statements in the market place is only one of many benefits that accrue directly from an independent audit but companies also get a wide range of benefits from the involvement of their auditors as well as advice on a wide variety of issues and these benefits should not be thrown out in the desire to reduce the perceived cost burden.

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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