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Audit & Accounting Team
Department of Business, Innovation and Skills
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22 December 2011

Forum of Private Business response to the *Consultation on audit exemptions and change of accounting framework*

Dear Mr Rottenberg,

The Forum of Private Business represents 18,000 small businesses throughout the UK. We have focused our response on the key areas of the proposals which will affect small firms. Principally, the proposals to bring the criteria for audit exemptions in line with those for filing abbreviated accounts.

Reducing red tape for small businesses

The Forum welcomes the overall principle of reducing auditing requirements for small businesses. As part of our Get Britain Trading campaign, which aims to highlight the massive contribution of small businesses to the UK economy, we have been calling for reductions in the regulatory burden on the smallest firms to allow them the time and resources to focus on growing their businesses. Having to comply with various rules and regulations is a heavy burden on small firms and we welcome moves to cut red tape in a wide range of areas, auditing being one of them. According to our Cost of Compliance research, the most significant impact of complying with red tape for small businesses is time (40%), costs (29%) and reduced business performance growth (21%). Our members feel that using valuable time complying with various regulations is damaging to their businesses and they spend average 38 hours every month on compliance. Bringing the audit exemption criteria in line with the criteria for filing abbreviated accounts would make the audit and accounting system more consistent and simpler to understand. Moreover, it would increase the number of small businesses eligible for exemptions and reduce the burden on those that chose to exempt themselves, saving them both time and money, and allowing them to focus on growing their businesses.

Impact

However, the Forum is unsure that these proposals would have as big an impact as the Government is claiming. Research that we have carried out on small business finance and credit management has shown that in the current economic climate, and with the current constraints on cash flow, businesses are prepared to go the extra mile to prove the reliability of their finances. Audited accounts, credit checks and management accounts are all frequently used to minimise businesses' financial risk, and businesses have tightened up considerably in terms of financial discipline. Therefore, we question the extent to which small businesses would take up the opportunity to exempt themselves from audited accounts.

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Risk

Our main concern with proposals to reduce auditing requirements would be that reducing the need for audited accounts would impact upon small firms' ability to access finance, however, we feel that these proposals are unlikely to adversely affect lending decisions on a scale that would cause concern. And as mentioned above, for credit reasons, firms that wish to do so are still able to be audited on a voluntary basis. While we question the extent to which this will be taken up, we welcome moves to put power back in the hands of businesses owners and to allow them to decide for themselves.

Yours sincerely,



Phil Orford
Chief Executive