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 ______**David McBain**______________________________________

Organisation (if applicable) _**Johnston Carmichael LLP**_______________

Address __**29 Albyn Place**_______________________________________

__________**Aberdeen**____

__________**AB10 1YL**____

____

____

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	YES
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:

Against the backdrop of the current economic climate, reducing costs for business could be looked upon favourably by a majority of stakeholders. However we would point out that the current economic climate also presents a greater risk for fraud, including the misappropriation of assets and the misreporting of financial results. Any reduction, real or perceived, in the confidence of the users of financial statements may have a negative effect on business overall and we would think it prudent that this consultation carefully weighs up any potential downside in this regard with the potential cost savings.

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 In the current economic climate, we feel that any cost saving would be looked upon favourably and taken up by the majority of businesses.

B In our opinion the whole of the audit fee will not be saved as each business that would become exempt from audit would still have a duty to prepare and file statutory accounts with Companies House and HMRC. Audit exemption alone will not remove these underlying requirements.

C It is logical to conclude that the management of small companies taking the audit exemption will save some time. It is difficult to estimate how much time would be saved.

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:

We can see some logical merit in aligning the audit exemption criteria with the small company size criteria based on the current regime however we would hope that the wider responses to this consultation would raise a question on whether these criteria were in fact the best way to determine businesses that required an audit or not. Other factors such as level of indebtedness may provide a more commercial basis for determining statutory audit requirement.

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:

Within a qualifying group, the audit of each constituent company would be done to an overall group materiality as opposed to a company specific materiality. Accordingly the amount of overall audit work being done on each company in the group may decrease.

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:

Exempting such subsidiaries from preparing and filing accounts would result in a lack of transparency around the underlying components of a group. There are a wide range of stakeholders who find subsidiary accounts useful. A practical example of this could be where a subsidiary is to be sold and more diligence would be required to construct stand alone financial information in a suitable format. Further, credit reference agencies and other businesses wishing to assess credit worthiness of a trading entity would not be able to assess such an entity on its own.

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:

We feel that audit exemption is satisfactory for qualifying dormant subsidiaries.

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:

We are not in agreement with introducing an exemption to qualifying subsidiaries, however were this to be introduced we would welcome a tighter restriction on those companies able to apply it.

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:

We would not specifically comment here other than to say that making this allowance does not appear to accord with the direction the FSA is taking in the current economic environment regarding the reporting and regulating of such businesses.

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:

We would reiterate our disagreement in principal with the proposal however we do not feel that an LLP should be at a disadvantage to a company should these changes be made.

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:

We have no way of corroborating these figures and would not comment on their accuracy.

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 agree that management time would be saved and 5 hours does not seem unreasonable however we would question whether this yielded an actual cash saving.

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:

We assume the abovementioned £280 relates to management time saved alone and on that basis we would not agree as we do not believe that saving management time would yield a specific cash saving.

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:

Each set of circumstances can be different and we would not condone a business avoiding taking legal advice regarding guarantees of this nature, even if generic guidance was provided by government.

Question 14 (para 49)

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

☐ Yes ☐ No ☒ Not sure

Comments:

We would say that in the current economic climate, particularly when a business is looking to establish trading lines of credit with another business, confidence is taken in making a business decision based on a number of factors. Having a range of sources of information is key and we feel that the accounts of an entity are an important part of that information.

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:

Yes, we agree with the overall conclusion that the Government does not propose to exempt non dormant qualifying subsidiaries from the preparation and filing of 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:

We note that the assumption has some basis on the minimal assessed impact from the previous increase in audit thresholds. We would point out that the current economic climate is more difficult to operate in and many small audit firms could lose a key stream of business.

Question 17 (para 55)

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

☐ Yes ☐ No ☒ Not sure

Comments:

The proposal seeks to mitigate most of these risks by the inclusion of the parent company guarantee which we are opposed to. We make comment on this in questions 18 – 20 below.

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 are against the proposal of the guarantee as this may remove the protection of limited liability that a subsidiary company provides.

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 would comment that the scope of any guarantee should be carefully considered with respect to maintaining the protection of limited liability should this proposal go ahead.

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:

We do not feel that the board of directors of a group of companies would wish to guarantee the debts of any and all trading subsidiaries to save between 10% and 25% of the audit fee.

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:

Agreed.

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:

Yes, the reliability of financial information is underpinned by a consistent application of underlying accounting standards.

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:

Outside any relevant change in circumstances we feel that a 5 year limit is sufficient to avoid any unnecessary changes in the consistency of financial reporting.

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 – Having gone through the change to IFRS we are not convinced that subsidiaries will chose to switch back to UK GAAP, only to have to switch again to FRSME with transitional effect from 1 January 2014.

B – Whilst UK GAAP does have less onerous disclosure and accounting requirements we are unable to confirm the accuracy of this cash saving.

Question 25 (para 82)

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

☐ Yes ☐ No ☒ Not sure

Comments:

We would not comment on the accuracy of this number however we would point out that this could be an unnecessary cost as the implementation of FRSME shortly thereafter would necessitate another switch in GAAP.

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:

Converting to a different GAAP requires a completeness check to ensure any changes in accounting or disclosure are being correctly applied. There could be a risk if this was not carried out.

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:

We would again mention the implementation of FRSME and question the validity of allowing companies to switch from IFRS to UK GAAP for at most 2 years before switching back to an IFRS based accounting framework.

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.

No comment

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

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