CERTIFIED PUBLIC ACCOUNTANTS ASSOCIATION

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Attention of Rufus Rottenburg
Audit & Accounting Team
Department of Business, Innovation and Skills
Spur 2 (3rd Floor)
1 Victoria Street
London
SW1H 0ET

21 December 2011

Dear Sir,

Re: Department of Business and Innovation ('BIS')
Consultation - Audit exemption & change of Accounting framework

1. BACKGROUND and INTRODUCTION

Introduction:

1.1 The UK – Certified Public Accountants Association ('CPAA') is very pleased to comment on BIS proposals for increased audit exemptions and the change in accounting framework. We strongly welcome the efforts by BIS to reduce the regulatory burden on the SME sector and we make further suggestions in that regard. We do this against a background of a near stagnating UK economy and need to deliver genuine growth and prosperity. We will be pleased to assist BIS further in its consultations, in the areas indicated below. Please make requests in the first instance via our Company Secretary.

Enhanced 'goldplating' concerns:

1.2 After BIS began this consultation the UK became more isolated in an EU context. Our members in business in particular express strong concerns about the damage to UK investment from any 'goldplating'. Not only damage from EU inward investment but also countries outside the EU no longer perceiving the UK as such a good entry point to the EU.

Who we are:

1.3 We are an expanding Association of over 1,300 whose members concentrate on the SME or 'General Practice' areas. Included within our membership are a number who are also active members of CCAB bodies; over a fifth of our members are in that category joining by exemption rather than our own

examinations. We have practising members throughout England, Ireland, Scotland and Wales with a small but growing number of overseas members. We do not provide audit services and thereby avoid the potential conflicts in the SME segment, of preparing their auditing accounts. Members help to identify suitable auditors, for those clients needing an audit certification, in addition to the accounts and tax services provided by our members. We are thus specialists in the SME segment in tax returns, accounts and in the efficient choice and overseeing of auditors. Our members in industry have assisted us further in these comments.

Strong basis for sounding UK wide SME opinion:

1.4 We have an especially strong branch structure spread throughout the United Kingdom. A very high proportion of our members attend the regular day long meeting and training sessions in our 14 branches. Joiners from CAAB bodies highlight the substantial strength of our branch network and our particular ability to consult directly with members 'face to face'. We can at times achieve more members attending just one of our 14 regional events than the larger accounting bodies achieve nationally on consultations. Members requested our AGM this year to be at a more central location to make attendance easier.

Direct approach to banks on accounts needs:

1.5 We have followed a direct approach to major banks and financial institutions, in establishing what they need from our clients by way of financial information. We have covered almost 50 major banks or institutions in this ongoing exercise; our comments on this consultation reflect those findings. They are not therefore speculative comments about whether or not 'audit' is key or of more limited relevance to banks use of SME accounts.

Why we are commenting

1.6 In the nature of an expanding Association, whose members have specialised, very efficiently, in servicing the SME or smaller enterprise, we have a particular focus and knowledge to contribute. We see strong attractions in many of BIS proposals and highlight some areas where additional information may assist BIS in implementation.

Difficulties of some CCAB bodies in servicing the smaller SME sector

1.7 The April magazine of one of the larger Chartered bodies refers to .....A Profession in Crisis..... The crisis is in the SME or General Practice area, failing to train sufficient successors for partners/principals. Reasons given in the article include .....young accountants who train with the Big Four firms, which train the majority of accountants, are attracted to secure, well paid jobs in industry, or prefer to pursue their careers within the bigger firms. They may not have the skills or the inclination to take on a more general practice and the type of work and lifestyle that entails.....

1.8 CCAB in contrast are training, specialising and growing in the SME and General Practice areas. We thus believe there are particular areas where our knowledge and input will be especially helpful to BIS. We seek to use our presence in the SME segment, to assist BIS and Government in re-establishing

stronger growth in the UK and world economy. CPAA would urge the BIS to pay particular attention to the views of those, like itself, that are successfully embracing the SME or General Practice area. We believe we have a more acute awareness of genuine audit and accounting needs and dangers of excessive regulation.

2. PUBLIC INTEREST and MARKET NEEDS of SME SECTOR

The market needs for the SME segment:

2.1 The SME sector is being relied upon heavily to generate the growth/jobs to move the UK and other economies into stronger recovery. CPAA as specialists in this area, believe the focus in servicing accountancy needs of these organisations has some key elements:-

a) Timely financial information (often specific to the industry) geared to the particular needs of the business managers (proprietors) and capable of easy interaction with tax returns;

b) Tax return information;

c) Financial information for banks, as mentioned above: and

d) Often rather limited requirements of any other users

Merits and need for audit:

2.2 The merits of audit for SME's should be such that those organisations that benefit from it adopt it. If there is a genuine, significant and measurable benefit in acceptance of audited accounts, compared to unaudited, then organisations will have audits in any event. Hence CPAA can only support the efforts of BIS to increase the audit exemptions as indicated.

Public interest issues for SME accounts and audit

2.3 Public interest issues in the content of accounts of individually very small companies is not a high priority. The individual enterprises are, unlike Banks, so small as to have no measurable individual impact on the economy alone. Imposition of excessive audit requirements is likely to be costly and distracting from growth and employment generation. Distracting especially at a time when governments are expecting SME's to help drive growth. The primary public interest issue for the SME sector is perhaps that it should not be subject to a stifling or overly dogmatic regulation.

3. COMMENTARY ON BIS PROPOSALS FOR PARENT GUARANTEES

3.1 For effective cost savings BIS need to provide a standard form of guarantee with some brief accompanying notes as to which liabilities may and may not be guaranteed. Unless that approach is

followed it will give rise to companies seeking legal advice, as to the validity of a proliferation of guarantees and an increase in costs to the economy.

3.2 We can appreciate that BIS might be reluctant to appear to take some responsibility for the form of a guarantee. However, one that is open (in footnotes) as to where the guarantee might have shortcomings, could nevertheless be very helpful. The Law Society has in the past managed to get a good degree of standard contract as example in conveyancing. Hence perhaps a guarantee that was widely publicised in draft, for comment, might be practical.

3.3 Unless a guarantee in standard form can be produced – readily accessible as a form from Companies House; the suggested savings may not be achieved. Indeed higher costs could result rather than savings. Imagine the very substantial legal costs if say 10 or 20 creditors of a company, felt they had to have legal advice about the effectiveness of a guarantee. In such circumstances it is easy to see how the cost in additional management time and legal fees could easily exceed any audit fee savings.

4. OTHER AREAS FOR REGULATORY SAVING

4.1 BIS might consider the aspect of entities that are not expected to cross into audit requirements very often. Perhaps only falling into the compulsory audit category perhaps one year in 5; then only marginally so. Could some leeway be allowed of say 20% uplift where the entity was expected to drop out of compulsory audit the following year. Then if the entity still remained in the compulsory audit category for a second year two years could be audited together – which should be less costly than two years audited separately.

4.2 There is a perception that some CCAB bodies expressed strong concerns about the original relaxation of compulsory audit. BIS might usefully look at what concerns (public consultation responses) were expressed at that time and if they seem to have been justified. There do not seem to have been major problems from that earlier relaxation. Such a brief study might be a basis for looking at yet further relaxations in compulsory audit requirements.

4.3 BIS should consider an earlier introduction of proposals than presently put forward in the consultation. Perhaps for year ends starting on or after 1 April 2012 which would anyway still be after the two most popular year end dates (31 December, 31 March).

5. COST SAVING ESTIMATES

5.1 The potential cost savings can be difficult to quantify precisely and BIS could devote disproportionate time to trying to get better estimates. Broadly our view is:

Management time saving:

a) Our members in business indicate the saving in management time could be substantial and a high estimate of that should apply. A common complaint is of several members of an audit team asking essentially the same question of management, on more than one occasion. Suggesting an inefficient audit in addition to the significant waste of entrepreneurial (wealth generating) management time.

Average audit fee saving:

b) The suggested individual audit fee saving seems high for many small companies, however the saving from parent guarantee arrangements could be the generally much higher (larger) audit fees. However, overall saving to the economy from Parent guarantees rely on a standardised form of guarantee available from Companies House (see 3.2 above).

We will be very pleased to assist BIS further if requested.

Yours faithfully,
p.p. Certified Public Accountants Association

Peter Hathaway

Peter Hathaway,
Executive Secretary