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.

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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	
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) User see below	YES

INTRODUCTION

About Creditsafe Business Solutions Ltd (Creditsafe)

Creditsafe in the UK is part of the Creditsafe Group, Europe's most used provider of on-line company credit reports with over 40 million reports downloaded annually. Creditsafe is a privately-owned business that was founded in Norway in 1997. It currently has its own fully owned business operations in seven European markets (UK, Sweden, France, Ireland, Netherlands, Belgium, and Germany) and has over 50,000 subscription customers and more than 500 staff.

In the UK Creditsafe is based in Caerphilly, South Wales, and is supported by the Group's Shared Service Centre in Cardiff Bay where central functions are located. Creditsafe has 28,000 customers in the UK and has built its business by selling primarily into the SME marketplace with on average 50% of all Creditsafe customers being first time users of Company Credit Reference Information.

Trade credit remains the key to small business cash-flow, and far outweighs bank lending as a source of finance. Creditsafe (and the other credit reference agencies (CRAs)) help facilitate the regular flow of business while helping to protect our customers from the threat of bad debt. Creditsafe is a key player in this market: our customers download on average 1.2 million UK company credit reports every month.

Creditsafe believe in the availability of transparent, open company information across all business sectors (and throughout Europe) to allow us to provide accurate reports with more predictive levels of analysis. As a result we are particularly interested in what statutory information businesses are required to make available and in what format, in order to build our credit reference reports.

GENERAL RESPONSE TO THE CONSULTATION PAPER

In order to provide a full response to the consultation paper we have given a general overview of our opinions and followed this with specific responses where appropriate to the questions asked.

General Overview

The consultation paper outlines the Government's proposals to reduce some elements of mandatory audit and accounting for certain categories of SME and subsidiary companies. The preferred proposal is designed to reduce the regulatory burden on business by removing the element of compulsion and to place UK businesses on a similar basis to their other EU counterparts.

While we are not a small business ourselves, the majority of our customers are, and as a leading provider of business information we are one of the major users of the financial information provided to government agencies by businesses.

In general while we would wish to see all businesses faced with a reduced administrative and bureaucratic burden we must stress that the timely, accurate and transparent provision of as much key information as possible allows us to provide a clearer and truer picture of a business's affairs which not only facilitates businesses' access to trade credit and bank lending, but thereby facilitates business in general. Our analysis of Small Companies (as defined by Companies House) credit ratings across the UK shows that on average companies that file audited accounts have credit ratings of around 20 points higher than those that are not audited (based on our rating scale from 1-100). From our viewpoint reducing the number of companies who choose to audit will inevitably lead to a reduction in their credit ratings and their access to both trade credit and bank lending.

Question 1 (para 25)

What are your views on the overall principle of reducing audit requirements for unlisted companies?
Comments:

In general terms Creditsafe does not agree with the overall principle of reducing audit requirements for unlisted companies. Auditing remains an additional safeguard as to the validity of a company's accounts and auditors' comments are an important factor to be borne in mind when assessing a business's creditworthiness. For providers of company credit reports the more information (and safeguards) that is available on a business, the more accurate is our subsequent assessment of its position. Less reassurance inevitably leads to a more cautious assessment being made. With other companies and indeed banks using company credit reports as a guideline to aid decision-making in the granting of trade credit or other lending any move that will potentially reduce credit ratings will be retrograde for the economy as a whole. It also increases the likelihood of fraud.

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:

Since we do not agree with the general principle it would be inappropriate to answer here

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:

Since we do not agree with the general principle it would be inappropriate to answer here

Question 4 (para 36)

Do you agree with option B to exempt qualifying non-dormant subsidiaries from mandatory audit of their accounts?

☐ Yes X No ☐ Not sure
Comments:

The Option B proposal to exempt qualifying non-dormant subsidiaries from mandatory audit raises a number of potential issues. Over and above our general concerns we are concerned where a company is a subsidiary of a company in another EU member state where standards may less regulated. In an extreme case a less than reputable UK company which would not be successfully audited in the UK could actually form a parent in, for example, Bulgaria and get consolidated accounts approved and audited in that state. There is also no stipulation about the availability of the parent's consolidated accounts in the English language thereby potentially raising the issue of additional translation costs being required to view the "parent" level audited accounts.

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:
The Option C proposal not only raises the issues outlined in Option B but also could lead to the situation where very large corporations would not have to file accounts. The resulting lack of information and transparency would be disastrous for UK business, leading to major rating downgrades for many businesses and a severe tightening of the availability of trade credit. It also significantly raises the likelihood of fraud

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:

The proposal to exempt "dormant" subsidiaries raises a number of issues around definitions of dormancy. Unfortunately without clarification in this area the likely impact cannot be estimated.

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 would appear inconsistent that the concerns that would lead to exemption in these specified fields do not apply to the wider economy. Transparency of information and trust in its verification are key elements here.

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:

The consequences of allowing financial services companies to take advantage of this exemption would be a very serious lack of confidence in any business that did so. The assumption would be that they have something to hide and they would be treated accordingly.

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:

Extending the exemption for subsidiaries that are Limited Liability Partnerships or unregistered companies appears confusing as it would seem that very few organisations would fall into that category. Availability of data on unregistered businesses remains a major stumbling block to providing transparent information on all UK companies.

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 do not have a view on the costs detailed and since we disagree with the general principle it would be inappropriate to comment here

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 do not have a view on the costs detailed and since we disagree with the general principle it would be inappropriate to comment here

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 do not have a view on the costs detailed and since we disagree with the general principle it would be inappropriate to comment here

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:

We do not have a view on the costs detailed and since we disagree with the general principle it would be inappropriate to comment here

Question 14 (para 49)

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

☐ Yes ☐ No ☐ Not sure

Comments:

No the views of stakeholders such as ourselves has not changed. Granting an exemption from filing accounts would be a severely retrograde step and very bad for the wider economy.

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?

X 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:

We do not have a view on this and since we disagree with the general principle it would be inappropriate to comment here

Question 17 (para 55)

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

X Yes ☐ No ☐ Not sure

Comments:

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

X Yes ☐ No ☐ Not sure

Comments:

Yes we do agree that the guarantee should be irrevocable and in respect of all debts in respect of that financial year, if it is allowed to become selective in any way then it is in effect meaningless. Again however there will be a need to clarify definitions in areas surrounding what constitutes debts and timescales.

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:

It is difficult to make a definitive statement here without further clarification of the terms involved. However In principle this appears to be a sensible split.

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:

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:

The final decision is one for Government and our views are largely confined to how this would be implemented. At present we operate in a number of EU markets and capture accounts in both accounting standards as a matter of course.

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 X Once every 5 years ☐ Never ☐ Not sure

Comments:

Consistency is a key element here and the once every 5 years proposal appears more sensible than allowing more frequent changes

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:

We do not have a view on the likelihood of take up or level of cost savings possible.

Question 25 (para 82)

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

☐ Yes ☐ No ☐ Not sure

Comments:

We do not have a view on the costs involved.

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?

X Yes ☐ No ☐ Not sure

Comments:

Allowing changes inevitably allows for some inconsistency and irregularity to occur. This could of course have an adverse impact on investors.

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:

We cannot comment as to how investors may interpret this information

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:

Since we do not agree with the general principle of changing the audit exemptions it would be inappropriate to recommend or prefer a date for change.

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.

We have included a general comment at the beginning of the response form and believe this opportunity should always be included.

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?

X Yes ☐ No

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URN 11/1196