Audit Exemption Consultation and Accounting Framework - Response 54

From: Reg Dev [mailto:RegDev@uk.experian.com]
Sent: 28 December 2011 13:59
To: Audit Exemptions Consultation
Cc: Reg Dev
Subject: BIS consultation on audit exemptions and change of accounting framework

Dear Sir or Madam,

Please find attached the response from Experian in respect of the BIS consultation on audit exemptions and change of accounting framework.

If you require any further information please contact us via the details provided within the document or by responding to this e-mail.

Kind regards

Paul

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Compliance - ensuring the business meets regulatory and best practice obligations.

New email address for Regulatory Development queries; regdev@uk.experian.com

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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
Mrs Beverley Dewhirst (Head of Compliance)

Organisation (if applicable)
Experian

Address:
Landmark House
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Nottingham
NG80 1ZZ

About Experian:

Experian is a global information and analytics organisation and delivers a number of services either directly to consumers or as services in support of other commercial organisations. Although primarily known for being the largest UK consumer credit reference agency Experian is also one of the largest providers of business information in the UK.

Data and Information is the core of Experian's Business Information division. For over 30 years we developed and maintained a number of key data assets that are subject to continuous investment in new sources, improving quality and enhanced matching and targeting methods. We use numerous Public, Proprietary and 3rd Party sources to gather the information we use to help our customers. Using our data management skills and experience, sophisticated matching software and analytical and scoring expertise, we link the data from these sources to create a number of data assets that feed into our products and services.

One of the primary services that we provide is to assist companies who are looking for information to help them when making credit decisions. These checks are typically performed during the application stage but can also be undertaken as part of ongoing customer management on an active account or during the collections process where monies remain unpaid.

We supply these products and services to organisations in all verticals including Banks, Finance, Telecoms, Utilities, Public Sector, Corporate and SMEs to help them make informed decisions for the types of reasons outlined above.

Please return completed forms to:
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London
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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)	YES
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)	

Question 1 (para 25)

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

Experian supports any initiatives that look to reduce the burden on SMEs and attempts to create an environment which encourages growth in this sector allowing smaller businesses to thrive.
Experian welcome changes that simplifies audit requirements across a larger number of entities, both incorporated (Micro-companies) and unincorporated (Micro-Businesses).

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:

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:

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:

Whilst being in favour of this proposal Experian wishes to emphasise the potential impact to qualifying companies of filing accounts that do not correctly add up.

Credit Reference Agencies generally do not offer a credit score for companies when their accounts are clearly incorrect and this inability to produce a credit score is likely to have a negative effect on the ability of those businesses to obtain finance. This problem could be exacerbated by more companies being exempted from a requirement to have their accounts audited.

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:

From Experian's perspective, this exemption could result in there being less data to ascertain meaningful credit scores, with the knock-on effect that lenders would be less able to make informed lending decisions on these businesses.

This could also place an additional burden upon business already trading or lending to non-dormant subsidiaries, as they may then look to seek parental guarantees.

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:

For Experian, this change would create some work in changing our validation rules, score card mechanism and changes to how we display these companies in the credit reports that we produce.

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:

Experian welcomes the government's recommended options for both non-dormant qualifying subsidiaries and dormant qualifying subsidiaries in confirming their exemption from:

- Mandatory audit of their accounts but still filing accounts (non-dormant subsidiaries)
- Mandatory audit and mandatory filing of their accounts (dormant subsidiaries)

In respect of dormant subsidiaries, this will create Experian some developmental work as systems are currently geared to expecting yearly accounts to be filed at Companies House.

Experian is also supportive of the proposal that annual returns will disclose if a company is a dormant subsidiary.

In addition, Experian believes that it would also be helpful if dormant subsidiaries without a requirement to file accounts could be clearly distinguished from those dormant companies that continue to file accounts.

Potentially the use of a SIC Code raised for Dormant Subsidiary alongside the current Dormant indicator would be a practical way to achieve this distinction with minimal impact to existing systems.

Question 17 (para 55)

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

☐ Yes ☐ No ☒ Not sure

Comments:

A move to bring the audit exemption threshold in line with the Small Company threshold releases 36,000 companies from their legal obligations to have an audit. This is a welcome move for those companies and would have little impact on Business Information providers, such as Experian.

The majority of accounts filed within this bracket are small abbreviated accounts with very little difference between an audited set and an unaudited set.

Experian believes that this consultation represents a good opportunity to emphasize the need for the figures in an un-audited set of accounts need to correctly add up.

Some Business Information credit report providers, including Experian, do not load accounts to their records when the accounts do not correctly add up and this has the potential to adversely affect the subject company's chances of successfully applying for credit.

Consequently, Experian strongly suggests that, whilst implementing a system that lessens mandatory audit requirements, the potential impact of filing inaccurate accounts should be highlighted to those businesses that may no longer need to undertake mandatory auditing.

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:

Experian's view is that the guarantee should cover both debts and liabilities, ensuring no other business/es lose out financially.

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:

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:

Experian supports the government's preferred option that a company can only change their accounting framework once every 5 years. This is a welcome move for companies providing business information as it enables continuity in building a historical financial profile on a company, which in turn can enable businesses using these services to make a better analytic decision on the creditworthiness of a company that they are considering lending to or doing business with.

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:

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.

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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