Audit Exemption Consultation and Accounting Framework - Response 56

-----Original Message-----
From: Rottenberg Rufus (BE)
Sent: 10 January 2012 11:00
To: Thompson Julian (BE)
Cc: 'Clare McCormack'
Subject: FW: [Edward Davey (BIS)] Government proposals to changes in audit requirements

Please see below an email to Edward Davey which I would like to treat as an additional response to the consultation, for publication. Thanks

Rufus

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-----Original Message-----
From: webmaster@edwarddavey.co.uk [mailto:webmaster@edwarddavey.co.uk] On Behalf Of rxthompson@hotmail.co.uk
Sent: 04 January 2012 18:51
To: Davey MPST
Subject: [Edward Davey (BIS)] Government proposals to changes in audit requirements

Robert Thompson sent a message using the contact form at http://www.edwarddavey.co.uk/web/?q=contact/Edward%20Davey%20%28BIS%29.

Re: Audits should be compulsory for all companies operating in the UK and so I would strongly urge the coalition government to introduce legislation to this effect. The number of companies being audited SHOULD NOT BE REDUCED.

Dear Mr. Davey

I am the Chief Executive of a medium/small manufacturing/engineering company.
Our firm continuously makes sales on credit to small businesses in the UK. In order to make such sales, we

need to have confidence over the financial health and stability of those businesses, especially in the current weak economic environment in the UK. In order to gain this comfort, we rely heavily on inspection of the audited financial statements of the companies with whom we do business. This is especially important when we are trading with companies to whom we have not previously made sales. I was therefore alarmed to hear that the coalition government is proposing a reduction in the number of small companies that require an audit and also proposing making audits optional for subsidiaries within non-financial services groups. Such moves are ludicrous and will certainly damage business confidence and trust in the UK. In fact, I strongly feel that it should be a legal requirement that all registered companies, including small companies and subsidiaries, are audited by an external accounting firm. Only in this way can other businesses gain comfort over the accuracy of a company's financial statements and the strength of a company's financial position in order to be able to make a well-informed decision as to whether or not to trade with that company. On several occasions over the last year, my firm has made sales to small companies which have gone into insolvency before paying the amounts owed to my firm, leaving the firm with significant losses. In each case, the company involved was not audited, and it turned out that the company had been misstating its finances in order to continue to be able to purchase goods on credit and to continue to obtain bank loans. If these companies had been audited, the misstatement of their financial statements would have been brought to light and these losses would have been avoided. As a result of these losses, my firm is planning to reduce its trading with smaller companies and, if further smaller companies are no longer audited then we shall probably cease trading with all small companies and focus only on larger companies instead. I would guess that many other companies of our size would do the same. It is essential to business confidence and trading relationships that all companies are audited, especially in this difficult economic climate. It should be an urgent requirement that all companies in the UK are subject to an independent external audit, and not for more companies to be exempted from audit. To be honest, audit fees are very small as a percentage of most companies' turnover and profits and the administration involved in preparing for an audit is minimal and should not really involve much extra work at all for a company if it keeps its financial records in order (which it should be doing anyway). I strongly believe that audits should be compulsory for all companies operating in the UK and so would strongly urge

the coalition government to introduce legislation to this effect.

The proposal to exempt subsidiaries from audits also appears to be ludicrous.
This will only serve to encourage companies to hide losses, toxic debts, large liabilities, tax evasion measures and so on in subsidiaries, knowing that these will not be audited. Enron, for example, collapsed precisely because it hid its huge liabilities and losses in vehicles which were not subject to audit. All subsidiaries should be audited. Audits are designed to improve business confidence and in order to do so need to be applied to all entities and companies.

Yours sincerely,

Robert Thompson

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