



Department  
for Business  
Innovation & Skills

**UK IMPLEMENTATION OF EU  
ACCOUNTING DIRECTIVE**

Chapters 1-9: Annual financial  
statements, consolidated  
financial statements, related  
reports of certain types of  
undertakings and general  
requirements for audit

**RESPONSE FORM**

AUGUST 2014

## UK Implementation of the EU Accounting Directive – Chapters 1-9: Annual financial statements, consolidated financial statements, related reports of certain types of undertakings and general requirements for audit

### Consultation 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 24 October 2014

Name:

Organisation (if applicable): Institute of Chartered Secretaries and Administrators

Address: Saffron House, 6-10 Kirby Street, London, EC1N 8TS

Please return completed forms to:

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Corporate Frameworks, Accountability and Governance

Department of Business, Innovation and Skills

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Please tick a box from the list below that best describes you as a respondent.

<input type="checkbox"/>	Business representative organisation/trade body
<input type="checkbox"/>	Non-government standard setting/regulatory body
<input type="checkbox"/>	Charity or social enterprise
<input type="checkbox"/>	Individual
<input type="checkbox"/>	Large business (over 250 staff)
<input type="checkbox"/>	Legal representative
<input type="checkbox"/>	Local Government
<input type="checkbox"/>	Medium business (50 to 250 staff)
<input type="checkbox"/>	Micro business (up to 9 staff)
<input type="checkbox"/>	Small business (10 to 49 staff)

	Trade union or staff association
X	Other (please describe) Professional Member Institute

## SECTION 6. The Government's Approach to Implementation

Question 1: Do you agree that the Government should maintain the UK's existing approach to financial reporting and only introduce changes where imposed by the Directive or where new options have been introduced? (*Paras 6.3-6.4*)

☒ Yes ☐ No ☐ Not sure

Please provide information in support of your answer:

For the reasons stated in paras 6.1-4

Question 2: Do you agree that the Government should maintain the current position of providing discrete regulations for small companies and for large and medium-sized companies? (*Para 6.7*)

☒ Yes ☐ No ☐ Not sure

Please provide information in support of your answer:

For the reasons stated in paras 6.5-7

Question 3: Do you agree it would be helpful to have a new set of Small Companies and Group Regulations which set out the new small company regime and incorporate both the small companies' exemption and the micro-entities exemptions clearly and in one place? (*Para 6.8*)

☒ Yes ☐ No ☐ Not sure

Please provide information in support of your answer:

For the reasons stated in paras 6.8.

Question 4: Do you have suggestions for other regulations that might reasonably be consolidated as part of the implementation of this Directive? If so, please provide references to the relevant regulations with an explanation for your proposal and the benefits you expect this would deliver. (*Para 6.8*)

☐ Yes ☒ No ☐ Not sure

Please provide information in support of your answer:

**SECTION 7. Timetable for implementation**

Question 5: Do you agree that the new regulations should apply to financial statements for financial years commencing on or after 1 January 2016? (*Para 7.1*)

☒ Yes ☐ No ☐ Not sure

Please provide information in support of your answer:

To allow the longest period for companies to make the transition to the new regulations, as per para 7.1.

Question 6: Should companies be able to access the new financial reporting regime (increased thresholds and revised reporting requirements) ahead of the mandatory application date of 1 January 2016? (*Para 7.2*)

☐ Yes ☐ No ☒ Not sure

Please provide an explanation for your position. In particular, we would welcome information about the costs/benefits associated with your preferred option:

Although there might be circumstances where companies who are currently large/medium find it beneficial to access the medium/ small regime by applying the new size thresholds early, this could lead to confusion for both prepares and users, as stated in Para 7.2.

**SECTION 8. The Proposal**

Question 7: Do you agree with the Government's proposal to maximise the small company thresholds and provide as many eligible companies as possible with the opportunity to access the small company regime? (*Para 8.10*)

☒ Yes ☐ No ☐ Not sure

Please provide information in support of your answer:

As stated in 8.10 this allows a greater proportion of companies to be able to take advantage of the smaller company regime and thus reduce the reporting burden upon them. Provided the option to voluntarily provide additional information or prepare full accounts continues, this seems reasonable.

Question 8: We have been able to draw on academic studies and responses to earlier consultations but we would welcome any additional information/evidence you are able to provide to support your response. What benefits or costs do you think will arise from raising the company size thresholds? (Information may relate to both monetised and non-monetised benefits and costs.) (*Para 8.10*)

N/A

Question 9: Do you agree that the Government should continue to measure a company's size by reference to its balance sheet total, net turnover and average number of employees? (Para 8.12)

☐ Yes ☐ No ☒ Not sure

Please provide information in support of your answer:

It is appreciated that the current measures are well known and relatively easy to identify and that the Government's policy is to reduce or remove burdens on business. However, there is a concern that by ignoring companies deriving "significant income from sources other than the sale of products or the provision of services. Examples include investment income or donations (in cash or kind)." (as per Para 8.11 first para) may take advantage of the reduced disclosure requirements, when in other circumstances they would be regarded as a medium-sized or even large company. We would question the validity of allowing companies to take advantage of regulations in order to avoid reporting certain information (as per second bullet of 8.11). This seems to run counter to the other Government policy of increasing Trust and Transparency in businesses.

Question 10: Do you consider that there are circumstances where the Government should include other sources of income as net turnover for the purposes of determining company size? (Para 8.12)

☐ Yes ☐ No ☒ Not sure

Please provide details of the circumstances in which you consider the option should be applied, indicating the problem to be addressed and the costs/benefits that would arise. Information about the number of companies affected would be useful in assessing the impact of any change:

See answer to Qu 9.

Question 11: Do you consider that there are circumstances (beyond those already in the UK accounting framework) where it would be appropriate to require:

- (a) parent undertakings to calculate their thresholds on a consolidated basis rather than an individual basis; or
- (b) "affiliated undertakings" to calculate their thresholds on a consolidated or aggregated basis?

☒ Yes ☐ No ☐ Not sure

Please provide details of the circumstances to which the option should be applied, indicating the problem to be addressed and the costs/benefits that would arise:

As per answer to Qu.9, if there are situations where companies are taking advantage of the regulations to avoid the reporting of certain information this would run counter to the Government's policy on increasing Trust and Transparency in business.

Question 12: Do you consider that there are circumstances where the Government should adopt either or both of the above provisions? (*Para 8.13*)

☐ Yes ☐ No ☒ Not sure

Please provide details of the circumstances to which the option should be applied, indicating the problem to be addressed and the costs/benefits that would arise:

As indicated in the answers to Qu.9-11, careful consideration needs to be given to be this area. A balance needs to be struck between reducing the reporting burden on small companies and providing a loop-hole for larger ones, which runs counter to the Government's other policy of increasing Trust and Transparency.

Question 13: The Accounting Directive offers an option to reduce from 13 to 8 the number of mandatory notes required from small companies. Do you agree with the Government position to continue to require the five notes listed at paragraph 8.18? (*Para 8.19*)

☒ Yes ☐ No ☐ Not sure

If no, please provide an explanation, indicating which, if any, of the five notes you believe should be mandatory for small companies:

For the reasons cited in 8.19.

Question 14: Should the requirement for these additional notes be set out in regulations or should the need for additional notes be set out in accounting standards? (*Para 8.19*)

☐ Yes ☐ No ☒ Not sure

Please provide any information to support your views:

Probably the accounting standards – the accounting bodies are probably in the best position to answer this.

Question 15: Do you agree that small companies should have the choice of preparing an abbreviated balance sheet and profit and loss account if they wish? (*Para 8.21*)

☒ Yes ☐ No ☐ Not sure

Please provide information in support of your answer:

To allow choice as per para 8.20-21

Question 16: If small companies were permitted to prepare an abbreviated balance sheet and profit and loss account, please indicate if there are any line items which you would consider it essential to retain to support the presentation of a true and fair view of a company's financial position? Please explain. (*Para 8.21*)

N/A

Question 17: What benefits or costs might a small company see from deciding to prepare an abbreviated balance sheet and P&L? Evidence in support of your views would be helpful (Para 8.21)

N/A

Question 18: What benefits do you believe exempting small groups from consolidation will offer to small groups of companies? Evidence in support of your views would be helpful (Para 8.22)

Reduces costs in terms of production.

Question 19: Should the Government only exclude from the small company accounting regime those public companies whose securities are traded on a regulated market? (Para 8.24)

☐ Yes ☐ No ☒ Not sure

Please explain. If no, are there any types of public companies (other than those whose trading securities are traded on a regulated market) which should be allowed to access the small company regime (and why)?

Possibly a wholly owned public company, where its shareholder(s) is/are a private company/ies, which is not caught by the regulations or part of a larger group.

Question 20: Should the Government allow small companies who are members of a group which includes a public company to access the small companies regime? (Para 8.25)

☐ Yes ☐ No ☒ Not sure

Please explain. If no, are there any circumstances in which other small companies within a group which includes a public company should be allowed to access the small company regime (and why)?

As per answer to Qu.19

Question 21: Should the Government only exclude from the medium-sized company regime those public companies whose securities are traded on a regulated market? (Para 8.26)

☐ Yes ☐ No ☒ Not sure

Please explain. If no, are there any types of public companies (other than those whose securities are traded on a regulated market) who should be allowed to access the medium-sized companies regime (and why)?

As per answer to Qu.19

Question 22: Should the Government allow companies who are members of a group which includes a public company to access the medium-sized companies' regime? (Para 8.26)

☐ Yes ☐ No ☒ Not sure

Please provide information in support of your answer:

As per answer to Qu.19

Question 23: Do you consider that the exclusions from the dormant subsidiaries accounting exemptions (where the subsidiary has a parent company guarantee) should be amended so that:

- a) Companies are excluded because they have securities traded on a regulated market rather than because they are quoted companies? (*Para 8.27*)

Yes ☐ No ☐ Not sure ☒

Please provide information in support of your answer:

N/A

- b) Companies are excluded if they are part of an “ineligible group” under that definition as amended for the purposes of the small companies accounting regime? (*Para 8.27*)

☐ Yes ☐ No ☒ Not sure

Please provide any information in support of your answer:

N/A

Question 24: Do you agree that only permitting Formats 1 and 2 of the P&L should not impact significantly on UK companies? (*Para 8.29*)

☐ Yes ☐ No ☒ Not sure

If no, please provide an explanation for the impact (for example, which companies and in what circumstances) and what its effects might be. Any evidence of the cost of the impact would be welcome.

If, as para 8.28 describes, Formats 1 and 2 are those commonly used this proposal would seem reasonable.

Question 25: Should the UK take advantage of this option to provide greater flexibility in the layout(s)? (*Para 8.30*)

☐ Yes ☐ No ☒ Not sure

Please provide any information in support of your views here including any cost and benefits of providing greater flexibility in the use layouts.

If sector-specific layouts are suggested, please can you provide information on the need for such a layout within the sector, the issues the standard layouts currently present to that sector and the nature and value of any benefits greater flexibility might bring.



To be answered by the accounting bodies, although based on the information in para 8.30 this would seem reasonable.

Question 26: If the UK took up this option, should flexibilities be dealt with in the regulations or in accounting standards and why? (Para 8.30)

☐ Yes ☐ No ☒ Not sure

Please provide information in support of your answer:

Again we would defer to the accounting bodies, although initial reaction would be that accounting standards rather than regulations would be the best place to deal with flexibilities.

Question 27: Do you agree that the legislation should enable participating interests to be accounted for using the equity method in individual company financial statements? (Para 8.33)

☐ Yes ☐ No ☒ Not sure

Please provide any information in support of your views, including any costs and benefits of allowing this option:

For the accounting bodies.

Question 28: Do you agree that the Government should provide for the 10 year maximum period for write-off offered in the Accounting Directive? (Para 8.36)

☐ Yes ☐ No ☒ Not sure

Please provide any information in support of your views, including any reasons that the period should be kept to 5 years, or to any alternative period:

For the accounting bodies.

Question 29: Do you agree that the removal of this option should take effect alongside other changes to the UK's financial reporting framework? (Para 8.38)

☐ Yes ☒ No ☐ Not sure

If no, please provide an explanation and indicate when the change should be effective and what the reasons are for this:

We would not support a proposal to remove the option to provide information on subsidiaries included in a consolidation as part of a company's Annual Return. This runs counter to the FRC's campaign to cut clutter and reduce the bulk of annual report and accounts. As explained in the ICSA response to the BIS consultation on Companies House Filing Requirements in November 2013:

**“Question 13 (paragraph 101)**

*Do you agree that companies with subsidiaries must include a total number of subsidiaries? If not, why?*

*This would seem a reasonable proposal for certain companies. However some group structures are particularly complicated and gathering up to date lists whenever they provide information about themselves could prove onerous (option 1). Similarly, the number of subsidiaries can change between the accounts and the annual return date (option 2). The simplest option would be to have one annual list accurate at a particular date.*

*We would make the point that the question refers to the 'total number of subsidiaries' yet the consultation documentation (and question 14) refers to the list of subsidiaries required in the accounts and companies opting to submit a list with the annual return but then forgetting to do so. We would not support a proposal where companies must list their subsidiaries in their accounts, but would support a list being made up to a specific date and listed in one place i.e. the annual return or their website. If companies are forgetting to do the former this is an area where CH [Companies House] needs to act as a regulator and enforce the requirement.*

#### **Question 14 (paragraph 101)**

*Do you agree that the information must always be included in the accounts?*

*As mentioned above the list should be in one place on one date, perhaps the company should be able to choose whether this is the accounts, website or the annual return (the last option could be enforceable by CH)."*

Question 30: Do you agree that the companies eligible to take advantage of the micro-entity regime should be relieved of the obligation to prepare a Directors' Report? What costs or benefits would result from this change? (Para 8.42)

☒ Yes ☐ No ☐ Not sure

If no, please provide information in support of your view and the value that the Directors' Report offers to a micro-entity company:

*For the reasons cited in paras 8.41-42.*

### **SECTION 9: Implications for the UK's Approach to Statutory Audit**

Question 31: Do you agree that the thresholds for the small companies audit exemption should remain unchanged for the time being i.e that the thresholds for the audit exemption should not be increased in line with thresholds for the small company regime for accounting purposes at this time? (Para 9.5)

☐ Yes ☐ No ☒ Not sure

Please provide information in support of your answer:

*We would defer to the accounting bodies on this but, would question if this might lead to confusion, and greater work, in that legislation would need to be amended (para 9.4). Para 9.5 states that the Government will consider in due course, it would be helpful if time scales were given.*

Question 32: Do you consider that the exclusions from the small companies audit exemption should be amended so that:

- a) Small companies are no longer excluded simply because they are public companies, though they are excluded if they have securities admitted to trading on a regulated market? (Para 9.10)

☒ Yes ☐ No ☐ Not sure

If no, are there any types of public company (other than those with securities admitted to trading on a regulated market) which should be allowed to access the small companies audit exemption?

See answer to Qu. 19.

- b) Small companies are only excluded if they are part of an “ineligible group” under this definition as amended for the purpose of implementing changes to the small companies accounting regime? (Para 9.10)

☐ Yes ☐ No ☒ Not sure

If no, are there any circumstances in which small companies that are part of an “ineligible group” (as amended) should be allowed to access the small companies audit exemption?

N/A – The accounting bodies to answer.

Question 33: Do you consider that the exclusions from the subsidiaries audit exemption (where the subsidiary has a parent company guarantee) should be amended so that:

- a) Companies are excluded because they have securities admitted to trading on a regulated market rather than because they are quoted companies? (Para 9.10)

☐ Yes ☐ No ☒ Not sure

Please provide information in support of your answer:

N/A – The accounting bodies to answer.

- b) Companies are excluded if they are part of an “ineligible group” under that definition as amended for the purpose of implementing changes to the small companies accounting regime? (Para 9.10)

☐ Yes ☐ No ☒ Not sure

Please provide information in support of your answer:

N/A – The accounting bodies to answer.

Question 34: Do you consider that the exclusions from the dormant companies audit exemption should be amended so that:

- a) Companies are excluded if their securities are traded on a regulated market? (Para 9.11)

☒ Yes ☐ No ☐ Not sure

Please provide information in support of your answer:

N/A – The accounting bodies to answer.

b) Companies are excluded if they are part of an “ineligible group” under that definition as amended for the purpose of implementing the small companies accounting regime? (Para 9.11)

☐ Yes ☐ No ☒ Not sure

Please provide information in support of your answer:

N/A – The accounting bodies to answer.

Question 35: Do you agree that Article 28 (2)(e) of the Audit Directive, as inserted by Article 1 paragraph 23 of the Audit Directive 2014/56/EU, should be implemented with the changes included in the new Audit Directive? (Para 9.15)

☐ Yes ☐ No ☒ Not sure

Please provide information in support of your answer:

The accounting bodies are probably in a better position to answer accurately however given the description in paras 9.12-15 this sounds reasonable.

Question 36: Are there any other changes made to Article 28 of the Audit Directive under Directive 2014/56/EU that you consider should be implemented at the same time as the changes introduced with the insertion of Article 28 of the Audit Directive by Article 35 of the Accounting Directive? (Para 9.15)

☐ Yes ☐ No ☒ Not sure

Please provide information in support of your answer:

N/A – The accounting bodies to answer.

Question 37: Do you agree that the regulations<sup>1</sup> should be amended to revoke the current requirement for disclosure of fees paid to auditors of medium sized companies for non-audit services? (Para 9.16)

☐ Yes ☐ No ☒ Not sure

If no, are there any types of medium sized company (other than banks or insurers or those with securities traded on a regulated market) who should be required to disclose the fees paid to their auditor for non-audit services?

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<sup>1</sup> The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 (SI 2008/489)

Transparency and consistency need to be maintained and confusion avoided, we are not sure that this will be the case given the explanation in 9.16.

Question 38: Do you agree that the current requirement for disclosure by large companies of fees they have paid to auditors for non-audit services should no longer be extended to public companies unless they have securities traded on a regulated market? (*Para 9.16*)

☐ Yes ☐ No ☒ Not sure

If no, are there any types of public companies (other than banks or insurers or those with securities traded on a regulated market) who should be required to disclose the fees paid to their auditor for non-audit services?

As per answer to Q37. If disclosing non-audit fees leads to greater transparency then perhaps this should be maintained.

Question 39: Do you agree that the current requirement for disclosure by large companies of fees they have paid to auditors for non-audit services should no longer be extended to companies in the same group as a public company? (*Para 9.16*)

☐ Yes ☐ No ☒ Not sure

If no, are there any circumstances in which other small or medium sized companies within a group which includes a public company should be required to disclose the fees paid to their auditor for non-audit services?

As per answer to Q37. If disclosing non-audit fees leads to greater transparency then perhaps this should be maintained.

Question 40: Do you consider that the current requirement for disclosure by large companies of fees they have paid to auditors for non-audit services should continue to be extended to medium sized and small companies that are members of ineligible groups? (*Para 9.17*)

☐ Yes ☐ No ☒ Not sure

Please provide information in support of your response:

As per answer to Q37. If disclosing non-audit fees leads to greater transparency then perhaps this should be maintained.

Question 41: Do you:

- (a) agree that the regulation should be amended so that the current exemption from the disclosure of non-audit fees paid by subsidiaries is no longer available to a subsidiary whose auditor is not the group auditor; or
- (b) think the exemption should be available to these subsidiaries where the total non-audit service fees paid to their auditor by all the companies in the group is disclosed in the notes to the consolidated accounts? (*Para 9.20*)

☐ a ☐ b ☒ Not sure

Please provide information in support of your response:

Option a) based on the arguments described in para. 9.19 would appear to be best option.

## SECTION 10: Application to Charitable Companies

Question 42: Do you agree that there would be merit in specifically stating in regulations made under company law that the information provided in the notes to the financial statements of a company charity is not limited to the information required by the Accounting Directive? (Para 10.6)

☒ Yes ☐ No ☐ Not sure

Please provide information in support of your view:

Relying on the information given in para 10.1-6, this would appear reasonable. The adoption of the charities SORP for charitable companies' reporting is well established and understood in the UK. While recent changes to the SORP have seen the possibility of charitable companies adopting one of two accounting treatments (FRS102 or FRSE SORP), it is anticipated that this will only be an interim measure as international accounting arrangements are brought into alignment. Given the recent changes to the Charities SORP additional notes explaining the limits of the Accounting Directive on charitable companies in England, Wales, Scotland and Northern Ireland would be welcomed by those trustees not familiar with the intricacies of accounting treatments.

Question 43: Do you agree that the current flexibility in presentation of financial statements of charities, in particular the requirement for an income and expenditure account and to adapt the arrangement, headings and sub-heading of financial statements to reflect the special nature of the company's activities, should be retained? (Para 10.7)

☒ Yes ☐ No ☐ Not sure

Please provide information in support of your view:

Relying on the information given in para 10.7, this would appear reasonable. The specific public benefit aspect of all charities registered in England and Wales warrants accounting arrangements to be sufficiently flexible that it is reasonably straightforward for the public, donors, funders and beneficiaries to understand how the charity has used its resources to meet its charitable purposes and where those resources have come from. In promoting public trust and confidence in the sector, as a whole, the publication of annual reports and accounts in a familiar format, regardless of corporate structure, is an approach that has gained support and recognition by trustees and stakeholders alike.

Question 44: Do you agree that a threshold based on gross income is more appropriate than its turnover for company charities? (Para 10.8)

☒ Yes ☐ No ☐ Not sure

Please provide information in support of your view:

Relying on the information given in para 10.8, this would appear reasonable. Accounting thresholds for charitable companies has generally included a mix of gross income and assets so the proposal to refer to gross income, instead of turnover, should not present any new issues for charitable companies.

If this view is taken for charities then it would seem reasonable to consider carefully the threshold issues referred to in 8c Reference point for calculating thresholds. And the subsequent questions on this area. This also raises the question of whether there are any other not-for-profit organisations which should or should not be captured by the provisions in the Directive.

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, would it be okay if we were to contact you again from time to time either for research or to send through consultation documents?

☒ Yes

☐ No

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