

Our ref PRM/AFE/00100000

19 March 2015

Paul Smith  
Corporate Frameworks, Accountability and Governance  
Department of Business, Innovation and Skills  
1 Victoria Street  
London  
SW1H 0ET

Dear Sir

## **Auditor Regulation**

### **Discussion document on the implications of the EU and wider reforms**

Kreston Reeves LLP appreciates the opportunity to respond to the discussion document issued by the Department of Business, Innovation and Skills ('BIS') in December 2014 on auditor regulation.

Kreston Reeves LLP is a firm of Chartered Accountants that is amongst the top 30 largest firms in the United Kingdom. Based in London and the South East, we have a wide range of clients, including AIM listed companies, but predominantly we operate in the SME market providing audit and other accountancy services. We are a member firm of Kreston International, a global network of independent accounting firms.

As a member of the Association of Practising Accountants ('APA') Kreston Reeves LLP is a party to the joint response made by the APA and the Group A accountancy firms to the discussion document. We wish to give our endorsement to the comments made in that response.

We do however wish to specifically address the issue of audit exemption raised by Section 4.6 of the discussion document by providing a response to Question 41 as this is an area that directly impacts upon the audit market in which we operate.

*Q41. Do you consider that the small companies audit exemption thresholds should:*

- a) Remain aligned with those for the small companies accounting regime, so that the number of audit exempt small companies will increase in line with the increase in the small companies accounting thresholds;*
- b) Remain unchanged so that the turnover and balance sheet thresholds are considerably lower than the thresholds for access to the small companies accounting regime; or*
- c) Be amended in some other way (please set this out)?*

Cont'd/...2

Section 4.6 of the discussion document addresses the small company audit exemption thresholds, and in particular whether those thresholds should remain aligned to the small company accounting threshold given their proposed increase for accounting periods commencing on or after 1 January 2016.

It is our strong opinion that the audit exemption thresholds should remain unchanged so that they become considerably lower than those for the small companies accounting regime – option (b) to question 41 of the discussion document.

Although we welcome any attempt to reduce the legislative burden faced by business, it is our view that the needs of stakeholders that rely upon financial statements would not be best served by any increase in the audit thresholds.

The imminent increase in the small company accounting thresholds will impact on a range of companies that cannot truly be said to be small; companies with significant minority shareholder interests, substantial amounts of bank borrowing and other debt, or staffing levels that can have a major impact on the local economy in which they operate would all be adversely affected by any increase in the audit thresholds due to the decreased level of confidence that could be placed in their publicly available financial information..

In our experience, companies of this size are often significant within local economies and in particular sectors. Audit, being an independent expert examination of financial statements, adds credibility; reducing risk by ensuring integrity and confidence in their accounts. This ensures high quality information for shareholders, employees, creditors and other stakeholders. It is a concern that these financial statements may no longer be required to be audited.

The additional assurance provided by audit helps the SME sector to flourish, providing stakeholders with the confidence to invest and support this vital component of the UK economy.

If you have any question on the contents of this letter, then please contact Peter Manser at the address shown.

Yours faithfully

Kristen Reeves LLP

