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 ____**JM Swallow, FCA**_____

Organisation (if applicable) __**abell morliss international**

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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)	y
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	y
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: opposed, it will lead to more problems with small companies run by un-scrupulous managers cutting corners, or worse.

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:
Companies dropping audits will save money, and management time. Users of accounts will lose heavily however. The annual accounts will no longer be prepared in accordance with auditing tight standards, instead the looser uk gaap etc…

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: of course, who would ever think not?

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: only if the holding company is exempt, otherwise groups will form subsidiaries to evade audit scrutiny. It is wrong for audited group accounts to contain un-audited figures from subsidiaries

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: only if the holding company is exempt, otherwise groups will form subsidiaries to evade accounts preparation. It is wrong for group accounts to contain figures from subsidiaries not prepared to same rules

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: only if the holding company is exempt, otherwise groups will form subsidiaries to evade accounts preparation. It is wrong for group accounts to contain figures from subsidiaries not prepared to same rules

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: only if the holding company is exempt, otherwise groups will form subsidiaries to evade accounts preparation. It is wrong for group accounts to contain figures from subsidiaries not prepared to same rules

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: none that I can think of. Why should some companies be treated differently?

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: of course.

PS. “unregistered companies” – there is no such thing, so what in fact do you mean?

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: I don't think you have got this right - only if the holding company is exempt, otherwise groups will form subsidiaries to evade audit scrutiny. It is wrong for audited group accounts to contain un-audited figures from subsidiaries

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: fobbing off auditors takes up more time than this. I suspect several days per company if it is a real trading entity.

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: "management" don't prepare/file accounts except in companies in the Footsie 100. Talk about the real world, and here it's 98.628% the external advisors who do this.

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: why would anyone take legal advice out of these proposals – to quote someone else "what have the lawyers ever done for us"? I think you mean - Will companies take advice before sending a p45 to their auditors? Then answer is YES, they will talk to a chartered accountant obviously as he will have spent hours going to fascinating courses on this gripping topic so he can advise all his clients.

Question 14 (para 49)

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

☐ Yes ☐ No ☒ Not sure

Comments: I wish you would use English – I think all the "stakeholders" had a great time on 31st October, and then went back in their caves for another year?

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: don't understand the convoluted language.
Q. Will it cost more for companies to decide if they are exempt rather than just caving in and having an audit done? A. Only if civil servants write the regulations.

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: it will mean the DEATH of small audit firms as they will no longer have enough work. This means the cost to audited companies will go up as only the massive posh auditors will remain.
It is deeply hostile to audit firms outside the top 20 firms, so don't go whining in a few years that audits are only done by a handful of firms, and you want the monopolies shower called in, when you attack small firms so vigorously – you can't have it both ways.

Question 17 (para 55)

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

☐ Yes ☒ No ☐ Not sure

Comments: your assessment is laughable, obviously written either by PWC/dolomite etc. or a bunch of non-businessmen. You have no idea.

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

☐ Yes ☒ No ☐ Not sure

Comments: what has this got to with the price of milk? It is a legal question to be dealt with under general law changes. Concentrate on the job on the tin of reviewing audit/accounting/reporting rules

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: see above

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: third parties should look at the wording of guarantees case by case and waste loads of money on lawyers advising them, it's nothing to do with this area.

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:

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: it's just part of the armoury of a top manger to avoid ever telling the truth about the profitability of his company. There is no point trying to stop them manoeuvring- let the market laugh at them and bin their credibility.

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: saving will be more. Managers lie about how much jumping they do before the auditor walks in – carpets, sweeping etc.

Question 25 (para 82)

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

☐ Yes ☒ No ☐ Not sure
Comments:

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?

☐ Yes ☒ No ☐ Not sure
Comments: except there will be more 'lies' in accounts/tax returns….as no nit-picker sleuthing through everything in future.

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: small investors haven't a clue about such things. And professional investors go on fascinating courses teaching them about these things, so where's the beef?

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: I would give more time for consultation of interested groups, especially while whole country is gripped by coming last in everything all summer.

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.

1. don't write questionnaires on German or French computers
2. don't write questions on the basis of the answers you want to hear
3. ask all sides to help write questionnaires so that the correct questions get asked
4. have some focus groups to chat about what's envisaged, they might tell you info…..
5. this document is far too poorly structured technically. You should be able to take the answers and extract them automatically

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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