



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):

Baker Tilly UK Audit LLP

Address:

Please return completed forms to:

John Conway

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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
✓	Other (please describe) <i>Independent firm of chartered accountants and business advisers.</i>

## 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:

*We agree that the UK position on the Member State options previously available under the 4<sup>th</sup> and 7<sup>th</sup> Company Law Directives should remain unchanged where those options continue to be available in the Accounting Directive, with one exception. As noted in our response to Question 2, we do not consider the option for medium-sized companies to file abbreviated accounts and other exemptions available to medium-sized companies to be widely used. As detailed in our responses to subsequent questions, where new options have been introduced, changes should only occur if there are justifiable benefits to users and preparers of financial statements.*

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:

*We agree that there should be discrete regulations for small entities as this supports the "think small first" position which has been successful for some time now.*

*However, we do not consider there is a compelling argument to retain the medium-sized entity category. Medium-sized accounts have limited disclosure exemptions, and it is rare in practice for medium companies to file abbreviated accounts due to the lack of significant disclosure exemptions. We therefore consider it would be a useful simplification to have categories for micro and small companies and for large companies, eliminating medium altogether.*

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:

*This would support the Government's "think small first" position, and combining the small and micro legislation would reduce the number of regulations required. The alternative would be for the Government to introduce amendments to the existing regulations in SI2008/409 which would be challenging for small companies to navigate. We would favour starting with a fresh set of regulations covering all the requirements for micro-entities and small companies (including those currently in SI2008/409) provided the requirements for small and micro entities are clearly presented in separate sections of the combined regulations.*

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:

*It may be preferable for the new Small Companies and Groups Regulations to become the single source of "accounts and reports" requirements under the new small company regime and hence to include the relevant requirements that are currently embedded within the Companies Act 2006. This could be achieved by incorporating the small companies "accounts and reports" requirements in Part 15 of the Companies Act 2006 (including the requirement for the accounts to show a true and fair view), and other relevant requirements, into the new Small Companies and Groups Regulations.*

*Whilst this may seem to be a complicated exercise, and perhaps outside the scope of this initiative, it would result in a single source of all regulations and requirements (including all requirements that currently sit in the Companies Act 2006) relating to "accounts and reports", including the directors report and the strategic report. Alternatively, cross referencing within the Small Companies and Groups Regulations and the Companies Act 2006 could be helpful but would necessarily take longer for users to interpret.*

**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:

*Given the 20 July 2015 deadline for transposing the Accounting Directive into national law, we would not support a mandatory effective date any earlier than 1 January 2016 as we do not believe it would give entities, (particularly those with short accounting periods), sufficient lead time to apply the requirements.*

*As detailed in our response to Question 6, we are supportive of an option for entities to adopt the requirements early.*

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:

*We consider there is a compelling reason to allow entities the option to early adopt the new financial reporting regime, particularly to benefit small companies, including the 11,000 companies that will be able to apply the small company regime for the first time. Allowing an early adoption choice, as opposed to mandating an earlier application date, will help companies avoid the cost of a two-step transition, firstly to FRS 102 and then to the new regulatory regime, (including the cost to small groups of preparing consolidated accounts).*

*We recognise that the option to early adopt has the disadvantage of potentially reducing comparability across industries where some early adopt and others do not but, in our view, this is a short-term issue and the most appropriate solution given the deadline for transposing the Accounting Directive into national law.*

## 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:

*We agree with the arguments set out in the Consultation Paper that the limits should be moved to the maximum permitted value. By choosing the largest thresholds the simplifications offered by the small companies regime will be available to the greatest number of companies reducing their administrative burden. Whilst the accounts under the small companies regime will be simpler than full accounts, those accounts should provide sufficient, relevant and decision-useful information for most users provided additional information is disclosed where necessary to show a true and fair view. Companies may also provide further information required for a lending decision directly to the lender.*

*However, we have concerns about the consequences of this decision on the quality of information that will be available on the public record for small and medium sized companies that take advantage of the abbreviated accounts option. Further details of these concerns are set out in our responses to questions 15-17.*

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)

*With an increase in thresholds and minimum disclosure notes, clearly there should be a corresponding simplification of the accounts of approximately 11,000 companies which would otherwise be required to prepare full FRS 102 (or EU-IFRS) compliant accounts. For those that are currently small, we would not expect a significant reduction in costs, and for the first year there may in fact be an increase in costs as companies will need to understand and identify the applicable requirements of the new framework.*

*Whilst it may seem helpful to have multiple options to cover the different types of owner/manager relationships that exist within small companies, the choices available for the preparation and delivery of small company accounts are themselves a cost. Management must weigh-up what is best for their company, and often they will choose the minimum disclosure required as that is what their competitors do. There is also the non-monetised cost of a lack of comparability across sectors given that small (non-micro) companies complying with UK GAAP will be able to choose one or more of the following 5 options.*

- full accounts under EU-adopted IFRS\*
- full UK GAAP accounts under the large company regime\*
- full UK GAAP accounts under the small company regime with 13 notes mandated\*
- abbreviated UK GAAP accounts for members\* (i.e. with abbreviated P&L, abbreviated B/S and notes [footnote 35, page 25 of Consultation document])
- abbreviated UK GAAP accounts for the Registrar (i.e. B/S and some notes).

\* with an overriding requirement to present a true and fair view

*These choices, whilst well intended, are not simplification and will reduce comparability between companies in the same sector, and hence may increase the costs of doing business with small companies in the UK.*

*The choices also add to the cost of training staff in each option, developing compliant software as well as the actual preparation time where each set of accounts requires to be checked to ensure it is of the required standard. By reducing these choices, there should be a reduction in management time taken to approve the accounts as well as consistency of information across similar industries.*

*However, we do have concerns that approximately 11,000 companies of a considerable size will now be able to prepare and file substantially abbreviated accounts. Users, including customers and suppliers will therefore have reduced access to information from the Registrar. If those users require more detailed accounts directly from the company, this has an inherent cost attached to it for both parties, including slowing down business decisions. There may also be unintended consequences for small companies and perhaps reduced likelihood of them winning new business as accounts are currently the “shop-front” for many small companies.*

*The Government does not appear to have consulted on the appetite of small companies to dispense with the option of publishing abbreviated accounts that only include the abbreviated balance sheet and selected notes.*

*The responses to this Consultation may give some indication and could identify whether credit reference agencies, banks and other suppliers of credit (such as suppliers) will ask companies for full accounts with increased frequency if the information they require is not available on public record. If so, the administrative burden on companies of choosing whether to prepare or file full accounts (i.e. taking into consideration the needs of users and the potential commercial disadvantage when their competitors file abbreviated accounts) could be alleviated if all small companies are required to prepare and file full accounts. This would create a level playing field and more information on the public record should allow quicker lending decisions, as well as improved industry comparisons. However, due to the nature of small owner managed companies we would not recommend removing the option for small companies to file abbreviated accounts with the Registrar without further outreach, and do not support the new option to prepare partially abbreviated accounts for members, as set out in our response to Question 15.*

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:

*This measurement basis, whilst it may have some drawbacks as alluded to by paragraph 8.12 of the Consultation Paper, is generally well understood and we are not aware that there is any significant abuse of these figures. We have considered alternatives to net turnover in our response to question 10.*

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:

*Whilst presently “other operating income” is excluded from the determination as to whether a company qualifies as small or not, if this income becomes a company’s principal source of income from the provision of goods and services then in our opinion it should be classified as turnover within the financial statements, and therefore there are unlikely to be many companies where this is a significant issue. We recognise that certain types of entity may not provide goods or services, for example charities, but in some instances application of the Companies Act requirements to such entities is addressed in sector-specific regulation.*

*We consider a minor amendment may be appropriate to the Government’s proposals, to the effect that entities which have not presented “net turnover” should substitute this figure with its primary source of income however it is described in the profit and loss account. However, we would suggest such an amendment should only be made once the number and nature of entities that could be affected is estimated and consideration is given to whether or not such entities should qualify as small.*

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:

*We consider that the current requirements are well understood and work well. Whilst this approach may be appropriate to address groups sub-dividing operations to achieve small company status, we do not see this as a widespread issue. Also, the costs to entities that have not undertaken such activities but that would still be bound by these requirements are, in our view, disproportionate to the benefits. To stipulate circumstances when these provisions apply that would capture all, and only, abusive group structures may be very difficult.*

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:

*We are not aware of any significant problems requiring amendments to legislation in this area. Our comments on the costs/benefits are set out in our response to question 11.*

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:

*We consider that the five member state options and the eight mandatory disclosures, where material, will be required for the accounts to show a true and fair view and provide relevant information to users. However, we do not consider that disclosure of only these mandatory notes will always be sufficient for accounts to show a true and fair view.*

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:

*The requirements for these additional notes should be set out in regulations in the first instance in order for the requirements to be enshrined in law, together with the rest of the small companies regime.*

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:

*As set out in our response to question 8 we consider that there are already many choices for small companies and by allowing choice this reduces comparability between similar companies as well as increasing complexity and compliance costs. We recognise that for certain entities (for example some owner-managed businesses) this option may be beneficial and could in some cases avoid the cost of preparing two sets of financial statements, one for members and one for the Registrar. However, we note that for many entities this will not be the case as they will still choose to file another set of accounts with the Registrar that would be abbreviated still further (e.g. excluding the profit and loss account).*

*Consequently, we do not foresee that this option would provide significant benefits to small entities.*

*If the government is minded to take this option forward, entities would need to consider whether the abbreviated information would be sufficient for users such as suppliers and lenders, although lenders may often have access to more recent historic financial information, such as management accounts, and details of order books and profit and cash flow projections.*

*In addition, to maintain the stewardship of businesses which are not owner-managed, we would suggest that shareholder approval is required to take up this option. This could be similar to the proportions in Article 23 of the Accounting Directive for exemptions from consolidation, i.e. 20% of the subscribed capital.*

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)

*We consider that the line items proceeded by letters and roman numerals, as proposed, should be sufficient information in the balance sheet, provided the conditional members objection is introduced as suggested in our response to question 15. In the profit and loss account, we would suggest that net turnover should be presented separately, rather than in aggregation with other operating income and cost of sales.*

*If the conditional members objection is not introduced, then we consider that all line items should be retained in the primary statements within the accounts for members.*

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)

*As alluded to in our response to question 15, the overall reputation of small company accounts may be adversely affected if abbreviated accounts for members becomes common practice. These accounts may exclude decision useful information that would otherwise have been included in "full" small company accounts. Those using the accounts for decision making purposes may even apply a small company discount given they will have limited information available, and can no longer access the full accounts.*

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)

*Given the current small group exemption saves many parent companies from the complexities of consolidation, extending this to those groups that are currently ineligible because they include a PLC that is not a Public Interest Entity would also generate considerable cost savings for small parent companies when preparing accounts.*

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)?

*We agree that a company with PLC status is not necessarily of greater public interest if its securities are not publicly traded. However, we do not consider that it is only securities traded on a regulated market which are of increased public interest.*

*If the Government was minded to allow all small public companies except those with securities traded on a regulated market to access the small company regime in line with the Accounting Directive this would mean that a small public company with securities traded on an unregulated market, such as AIM, would be permitted to use the small company regime.*

*Those markets that did not wish this to happen would then have to add their own rules to prevent this. It would be inconceivable to use the small company regime in such circumstances as investors need to know the position of the parent company with certainty (i.e. not be concerned that some important line items had been omitted from the financial statements) for dividend purposes and to form investment decisions.*

*If the Government is minded to exclude certain public companies from access to the small company regime (i.e. the PIEs), our preference would be to extend the definition to any public company with securities traded on a public market (i.e. any public market, not just a regulated market). However, if evidence suggests that few public companies whose securities are not publicly traded would take advantage of the small companies regime, it may be simpler to define those that are ineligible to apply the small company regime with reference to the type of company (i.e. PLC), as currently, as opposed to where (or whether) its shares are traded.*

*This would mean that no public companies would be allowed to access the small company regime. However, entities are able to re-register a public limited company as a private limited company, and a company may therefore choose to do this if there is no longer a business reason to be a PLC.*

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)?

*We consider that companies within a group containing a PLC should be permitted to apply the small company regime, which is a change to the status quo. The consolidated accounts, or individual accounts of the PLC (if it is not the parent), will present the picture of the group or PLC company that the investors have an interest in. Generally speaking the accounts of the*

*individual subsidiaries or group companies are not as important to the investors in the PLC as the consolidated accounts, or individual accounts of the plc (if it is not the parent).*

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)?

*For the reasons set out in our response to question 19 we consider that no public companies with securities traded on a public market should be able to apply the medium-sized companies regime.*

*In addition, in the interests of simplicity we would encourage the Government to consider abolishing the medium-sized companies regime. In practice there is little difference between medium and large company accounts and few medium sized companies choose to file medium abbreviated accounts. We therefore consider that the medium-sized companies regime has outgrown its usefulness, and now unnecessarily adds to complexity.*

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:

*For the reasons set out in our response to question 20, if the Government retains the medium-sized companies' regime, we consider that the Government should allow companies who are members of a group which includes a PLC to access the medium-sized companies' regime.*

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:

*For the reasons set out in our response to question 19 we consider that dormant public companies with securities traded on any public market (regardless of whether that market is regulated or not) should be required to prepare and file accounts and thus be excluded from the dormant subsidiaries accounting exemptions.*

- 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:

*This exclusion doesn't exist at the moment and we do not believe there is a convincing argument to exclude more companies from the ability to use the dormant subsidiaries accounting exemptions, even where they are part of an ineligible group.*

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.

*We agree this will not cause significant issues as Formats 1 and 2 are most commonly used by UK entities and Article 9 of the Accounting Directive permits adaptation of the presentation when required due to the special nature of an undertaking.*

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.

*We consider that the Government should work towards a solution that allows companies applying FRS 101 to prepare accounts with the same formats as used under EU-adopted IFRS in order to alleviate potential incomparability. The status quo is currently unsatisfactory as format and measurement changes are required from EU-adopted IFRS used for group reporting to the UK GAAP compatible Companies Act formats and measurements when presenting single entity financial statements under FRS 101.*

*We consider that Article 9 of the Accounting Directive, which permits adaptation of the presentation when required due to the special nature of an undertaking, to be sufficient to cover sector-specific layouts. In our view the guidance for specific sectors is already adequately addressed through SORPs.*

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:

*As noted in our response to question 14, formats and requirements for presentation should be enshrined in law, and hence we support the view that the flexibilities should be dealt with in the regulations.*

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:

*In our view, there needs to be comparability between the method of accounting for investments in participating interests by an investor that is a parent and by an investor that is not a parent.*

*Our suggestion would be to permit investments in participating interests (i.e. associates, joint ventures and subsidiaries) to be accounted for using the equity method in the individual financial statements of an investor that is not a parent and in the separate financial statements of an investor that is a parent. However, we recognise that an amendment to the existing requirements in FRS 102 would be required before this option could be widely adopted by UK entities.*

*We would also recommend that entities adopting the equity method of accounting are required to disclose the cost of their investments and any impairment of that cost. This would facilitate comparability with entities that do not choose to apply the equity method.*

*In our view, for entities that adopt the cost method of accounting, the regulatory requirement to disclose capital, reserves and profit or loss for the year for subsidiaries (in some instances) and other significant holdings provides sufficient information for comparability.*

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:

*We consider that the legislation should allow the standard setters in the UK the option to introduce the 10 year maximum period. Details such as this are best dealt with in the accounting standards, so it is sensible that the legislation permits the longest period allowed under European law.*

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:

*In our response to the BIS consultation document "Company Filing Requirements" in November 2013, we disagreed with the proposal to include detailed lists of all subsidiaries in financial statements as they "should not include immaterial items, and should instead continue to collate large amounts of information into a relevant summary. To do otherwise would add considerable clutter to accounts and is contradictory to the FRC consultation on Cutting Clutter." Nevertheless, if the Government is minded to press ahead with this change, we see no compelling reason to implement the changes in paragraph 8.38, to include information on subsidiaries in consolidated financial statements, at a different stage to other changes that will affect disclosures in financial statements.*

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:

*This would essentially be an administrative saving as the Directors' Report for micro-entities already need not be published (but must be prepared). Additionally, information on the company directors and the general activity of a company is already available at Companies House.*

## **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 believe that the Government should consult separately on whether it is appropriate to increase the audit exemption thresholds in line with those for accounting purposes.*

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?

*For similar reasons as set out in our responses to questions 19 and 21 we consider that retaining the public company definition is appropriate for audit exemption purposes. If a company has a PLC status we consider that it should not be exempt from audit, regardless of whether those shares are traded or not.*

- 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?

*Yes. The requirements for audit of members of groups that contain an ineligible member are well understood and appear to offer little difficulties in practice. There are a number of reasons the Government has previously set out that those who are part of ineligible group must have an audit, and we see no reason to change from that position. We note that the Government is minded to continue with a requirement for the audit of all companies in a group that is not small, and so on that basis the reasons to continue with the audit of companies within a group that has an ineligible company are equally valid.*

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:

*For the reasons set out in our response to question 19 we consider that no public companies with securities traded on a public market should be able to apply the subsidiary audit exemption.*

- 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:

*We do not consider there is merit in changing from the current situation where being part of an ineligible group does not preclude an entity from applying the subsidiaries audit exemption.*

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:

*We note in practice it is a rare occurrence for a dormant company to have securities traded on a public market.*

*The only companies currently excluded from the dormant company exemption are those set out in s481 (an authorised insurance company, a banking company, an e-money issuer, a MiFID investment firm, a UCITS management company or a company that carries on insurance market activity). We therefore consider that the proposed amendments would reduce the number of companies qualifying as dormant and see no compelling argument to change from the status quo – ultimately it would mean that all entities with securities traded on a regulated market would require an audit, irrespective of whether they were simply a cash shell listed entity with no transactions.*

- 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:

*This is inconsistent with the current position, and we support the status quo in the absence of any compelling evidence to the contrary. We do not consider there is any reason to exclude such companies from the dormant companies audit exemption regime.*

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:

*For the reasons set out in paragraph 9.15 of the Consultation Paper, we agree that an intervening period should not be introduced.*

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:

*We consider that changes should be kept to a minimum at this stage*

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?

*We recognise that this proposed amendment would apply the disclosure requirements only to large and public-interest entities as required by Article 18 of the Accounting Directive, thus relieving the disclosure burden to as many companies as possible as anticipated by the Accounting Directive.*

*We fully support the need for auditors to be, and to be seen to be, independent but do not consider such disclosure to be necessary to achieve this or commensurate with the costs to these types of medium sized companies of providing it.*

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

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 [small and medium sized] 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?

*We note that the Accounting Directive applies this disclosure to Public Interest Entities and so in addition to securities traded on a regulated market it must also apply to credit institutions and insurance undertakings as defined in Article 2 of the Accounting Directive. We consider that this disclosure should apply to all public companies with securities traded on a public market in order to recognise the interest of users in auditor independence. However, as noted in our responses to earlier questions, it may be simpler to determine that all public limited companies must be subject to the highest degree of scrutiny and disclosure, rather than by reference to whether and where their securities are traded.*

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 [small and medium] 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?

*We note in our response to question 41 that this exemption is only available if the information is given in the consolidated financial statements. In line with our other responses on the accounting requirements for companies in the same group as a public company, we do not consider a need for small and medium sized companies in the same group as a public company to disclose fees paid to their auditor for non-audit services. In our view, as noted in our response to Question 38, it is disclosure of non-audit fees in the accounts of the public company itself that is relevant.*

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:

*The Government should only require disclosures of such information for those companies that are included in the definition of large and public-interest entities. This information does not affect the true and fair view of the result or position of the company, and therefore should be limited to that required by the Accounting Directive.*

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:

*The Accounting Directive notes that the exemption for large and public-interest entities from the exemption from disclosing non-audit fees is only available if “such information is given in the notes to the consolidated financial statements”. We agree with the Government position that the disclosure in the consolidated accounts should only reflect the figures relating to the group auditor. Therefore, given the consolidated accounts will only include the non-audit fees paid to the group auditor, the subsidiary exemption should not be available to entities whose auditor is not the group auditor. We therefore support option ‘a’.*

## 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:

*We agree with analysis in paragraphs 10.1 – 10.6 of the Consultation Paper that a company charity is subject to the requirements of charity law. As such we consider it would be useful to include a reference to the hierarchy of company law and charity law within the accounting regulations such that it is enshrined in law.*

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:

*It is critical to allow charities to continue with the special formats that have been developed to present information to donors, beneficiaries and the general public that is decision useful in the context of the not-for profit sector.*

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:

*Whilst we have answered yes to the question, we see no reason to change the companies legislation.*

*We consider that the gross income threshold is well defined in the Charities Act 2011 and as such charities cannot avoid audit due to the technicality of gross income v turnover alluded to in the Consultation Paper. The audit requirements of the Charities Act 2011 apply to all charities except those that require an audit under Companies Act, and so all charities, irrespective of whether they are company or non-company charities will be subject to the lower thresholds of the Charities Act 2011. It is extremely rare for a charity to claim exemption under the Companies Act 2006 only to be caught by the Charities Act 2011 requirements. Therefore we do not consider there is any requirement to introduce charity specific definitions within the Companies legislation.*

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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