



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): Charity Commission for England and Wales

Address: PO Box 1227, Liverpool, L69 3UG

Please return completed forms to:

John Conway

Corporate Frameworks, Accountability and Governance

Department of Business, Innovation and Skills

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London SW1H 0ET

Telephone: 020 7215 6402

Email: Accounting_Directive@bis.gsi.gov.uk

The Charity Commission for England and Wales is established by law as the regulator and registrar of charities in England and Wales. Our aim is to provide the best possible regulation of these charities in order to increase charities' efficiency and effectiveness and public confidence and trust in them.

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

	Business representative organisation/trade body
√	Non-government standard setting/regulatory body
	Charity or social enterprise
	Individual
	Large business (over 250 staff)
	Legal representative
	Local Government
	Medium business (50 to 250 staff)

	Micro business (up to 9 staff)
	Small business (10 to 49 staff)
	Trade union or staff association
	Other (please describe)

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:

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:

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:

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:

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:

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:

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)

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:

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:

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:

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:

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:

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:

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:

We do not agree that the option to substitute abbreviated accounts (balance sheet and income and expenditure account) should apply to charitable companies. The explanation behind this proposal anticipates that the owners may be the managers and possibly the employees too. This may be the case for small private for-profit companies but is not the case for charities. In the interests of public accountability and transparency to donors, funders, financial supporters and taxpayers (in the light of the tax reliefs enjoyed by charities) we currently require the submission of the full accounts, the accounts currently provided to members, by the charity to us as the regulator for the public record. The full accounts, prepared in accordance with the

prevailing Generally Accepted accounting Practice and the extant charities Statement of Recommended Practice, provide a high level of information and disclosure which would be lost altogether if only abbreviated accounts are prepared. If this proposal proceeds we therefore contend that it should not extend to charitable companies but be restricted to non-charitable companies.

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*)

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*)

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*)

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)?

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)?

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)?

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:

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:

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:

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.

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.

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:

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:

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:

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:

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:

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:

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?

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?

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:

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:

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:

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:

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:

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:

Question 37: Do you agree that the regulations¹ 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?

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?

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

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

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?

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:

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:

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:

The European Union, in considering simplification of the financial statements and accompanying notes for eligible small companies, was concerned with the reporting burdens

on for-profit business. These businesses are predominantly owner operated or private businesses and do not In the main receive public funds, donations from the public or from businesses nor do they benefit from the extensive tax concessions intended to promote philanthropic giving and charitable activity. Charities, whether established as companies or not, exist for the public benefit undertake activities for the public good.

Charities therefore have a stewardship responsibility to their donors, financial supporters, the public and Parliament for the funds entrusted to them. Charities also have obligations towards their beneficiaries and are required to act for the public benefit. These higher obligations and the public interest are reflected in greater reporting and accounting requirements as compared to similarly sized for-profit companies. It would therefore be very helpful for an acknowledgement of this higher standard of transparency and disclosure to be recognised in the regulations governing the information to be provided in the notes to the financial statements by charitable companies.

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:

The purpose of for-profit accounting is to identify the profit made, the distributable profit and the assets and liabilities of the business. Since 1988, when the Accounting Standards Board issued the first Statement of Recommended Practice for charity accounting, it has been recognised that the financial statements designed for for-profit businesses do not provide the information needed by stakeholders of charities.

The ability for charitable companies to adapt the income and expenditure account to provide more relevant information has two main advantages. Firstly it enables charitable companies to describe the sources of income and nature of expenditure in a relevant way. Charities, unlike for-profit companies, have significant income from donations, legacies and financial support from government and also from giving by the for-profit sector which is not of the character of turnover. Turnover represents income predominantly from sales. Similarly charities' spend their funds on charitable activities rather than incur costs of goods and services sold in the manner that for-profit companies do. It is true that some charities undertake trading activities but many do not. The flexibility to adapt the financial statements to fairly reflect the nature of charity income and expenditure is therefore essential.

The second advantage is that it permits a common framework to apply for both charitable companies and non-company charities, all of which currently adhere to the extant statement(s) of recommended practice when preparing their accounts to give a true and fair view in accordance with UK Generally Accepted Accounting Practice.

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:

The definition of turnover is designed for for-profit businesses. This definition excludes income from non-exchange transactions such as gifts, donations, legacies and grants which are very typical of the charity sector. Gross income is a much more meaningful and appropriate measure for charitable companies as it encompasses all forms of income which they receive in order to fund their charitable activities.

Gross income from all sources would be a definition consistent with section 353 of the Charities Act 2011. Gifts of endowment, which cannot be spent, would continue to be excluded from gross income by virtue of the prohibition in charity law on treating those gifts of endowment as income to be spent in the accounting period of receipt.

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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