

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

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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)
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<input type="checkbox"/>	Small business (10 to 49 staff)

	Trade union or staff association
✓	<p>Other (please describe)</p> <p>Association of Accounting Technicians is:</p> <ul style="list-style-type: none"> • a charity (whose objective is to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law) • Non-governmental regulatory body (we regulate our members under the Money Laundering Regulations 2007) • Business representative organisation (we represent our membership of 49,800 members, 80,000 students, 4,100 licensed members in practice)

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:

AAT agrees that the Government should maintain the UK's existing approach to financial reporting so that preparers and users of accounts should only face the burden and potential confusion of changes (albeit only for a temporary period of familiarisation) when necessary.

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:

AAT agrees with 6.7 (conduc) for the reason expressed in the response provided to Q3 (below)

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:

There are clear benefits in relieving the burdens for small companies and in particular for micro-entities as well as in providing a single set of published Regulations as a "one-stop" point of reference.

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:

In the answer to question 42 which follows;

AAT suggests that steps should be taken to clarify the confusing position for charitable companies and the need for them to apply both charity law and company law accounting requirements, particularly for smaller charitable companies.

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:

New regulations should be effective from the earliest possible date to take full advantage of the potential benefits.

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:

The costs and additional workloads associated with the implementation of the changes are considered minimal and it is preferable to enable companies to take advantage of the benefits at the earliest opportunity.

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:

In principle while we believe the benefits of reduced accounts disclosures for small companies need to be made available to as many companies as possible,. However, AAT is concerned that the companies with turnover of around £10 million may not be considered "small" for accounting purposes and are likely to have a different management structure to an obviously small company. In particular they are likely to have their own in-house accounting expertise capable of meeting the disclosure requirements for larger companies and would not have the difficulties and costs facing smaller companies which have to seek external professional assistance for such.

The proposals to permit significantly larger small companies than at present to benefit from reduced disclosures in their financial statements needs to consider the level of disclosures required by third parties such as lenders and HMRC.

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)

As a result of the burden of regulation on auditors the costs of audits for "larger" small companies is frequently disproportionate to the level of their activities (see also question 31).

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:

No other yardsticks are considered suitable to indicate the size of a company. However, significant anomalies can arise from size by reference to number of employees due to distortion caused by companies who may use sub-contractors, both labour only "and" "labour and materials" suppliers or who operate as distributors or factors. As a measure of company size, the number of employees can only provide supporting evidence in identifying a large company but cannot support the identification of a small company.

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:

Turnover should include income from all ongoing activities. For example the turnover of a trading company which is also an investment company should include investment income, but income from capital sources should be ignored.

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

parent undertakings to calculate their thresholds on a consolidated basis rather than an individual basis; or

"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:

In order to avoid abuse of the reduced disclosures available to small companies, parent and affiliated undertakings required to prepare group accounts should also have their size determined by group totals for the purposes of all disclosures in their financial statements.

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:

See Question 11 above.

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:

In addition to the 5 notes being required, it is likely that, for small companies financial statements to present a “true and fair view” various additional notes other than the eight proposed compulsory notes, will also be necessary.

Full related parties and post balance sheet events notes are considered essential as the impact of related parties and post balance sheet events tend to be greater and more relevant to users of small companies financial statements.

The requirement for a fixed assets note is considered desirable.

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:

Either procedure appears acceptable.

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:

Although accounting software packages can readily produce abbreviated accounts, there is still a need to produce full accounts which provide more useful information to users. Consequently, there are no cost benefits attaching to the option to prepare an abbreviated balance sheet and profit and loss account and the resulting disclosures are of no practical benefit to users of such accounts.

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)

See Question 15 above. AAT does not consider that abbreviated accounts can show a true and fair view for most small companies without the inclusion of additional notes similar to those required for full financial statements.

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)

See Questions 15 and 16 above.

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)

Most users of small company accounts are primarily interested in the individual company, not the group position. The production of consolidated accounts is an unnecessary burden.

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)?

Even if not excluded by Government, the market regulator would exclude such companies from the small company regime. Other public and non-regulated companies with a large number of shareholders (say over 50) should also be excluded and in particular AAT considers that AIM listed companies should be excluded from the small company regime.

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

Yes No Not sure

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

As per Question 18, users of small companies accounts are primarily interested in the company itself and as per Question 19, the public company will be subject to the requirements of the market regulator.

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)?

See Question 19.

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

Yes No Not sure

Please provide information in support of your answer:

See Question 20.

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:

See Question 20.

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:

See Question 20.

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.

AAT agrees that there will not be a significant impact, but there will be an impact on those companies using the two formats of P&L that will no longer be available (8.28 condoc).

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.

While making it more difficult to prepare financial statements using standard software packages, flexibility of layout enables preparers to focus the readers' attention on the key elements.

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:

Either mechanism is acceptable.

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:

The use of the equity method in individual company financial statements can provide users with a better understanding of the company's financial position and activities but adds complexities to the preparation process. It would be helpful to offer the option of using the equity method.

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:

In the absence of any reliable basis to measure the life of goodwill, it is considered prudent to require that a maximum life of 10 years is assumed. Possibly a period of seven years would be more prudent and realistic in practice in that if the useful life of goodwill cannot be reliably estimated for a period in excess of ten years, it is unlikely that it could be reliably estimated for a period in excess of seven years.

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:

It is desirable to minimise the number of occasions when changes are introduced therefore the removal of the option to provide information in respect of subsidiaries in a consolidation should take effect alongside other changes to the UK's financial reporting framework.

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:

AAT agrees with the sentiment in 6.42 (conduc) that "it is questionable what value producing this information (the Director's report) provides to the 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:

In response to Question 8, AAT takes the view that companies with turnover of around £10 million may not be considered “small” for accounting purposes, because ‘privilege entails responsibility’ and these companies have the benefit of limited liability to which is attached a responsibility to provide information to all third party stakeholders.

However, the threshold for audit purpose requires further study and research on the basis that for large companies the benefits of an audit generally outweigh the cost of the audit, whereas for small companies (in particular Owner Manager Businesses or close companies) the situation is likely to be reversed with the cost of audit exceeding the benefit to the proprietors. Between these two extremes will be a break-even point which is where the audit threshold should be set. Therefore, AAT would recommend further consideration before increasing the audit threshold further.

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

See Question 19.

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?

No

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?

No, companies that are part of an “ineligible group” should not be exempt from audit.

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:

AAT is of the view that subsidiaries should be considered on a “standalone” basis. Guarantees provided by parent companies may have no value when crystallising at some future point of time.

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:

As for a) above companies should be considered on a standalone basis.

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:

See Question 19.

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:

See Questions 19 and 33 b).

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:

It is desirable to minimise the number of occasions when changes are introduced. Insofar as the changes implemented by the Audit Directive add to the burden of audits and consequently costs, it strengthens the argument that the imposition of these costs on small companies is contrary to the objective of reducing burdens for small companies, which clearly need to be exempt from audits.

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?

¹ 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 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?

All large companies should disclose fees paid to auditors 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

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?

Individual subsidiaries should disclose such information in line with requirements on a standalone basis, although there is thought to be no benefit in disclosing non-audit fees to users of accounts of small and medium sized companies.

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:

See Question 39.

Question 41: Do you:

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

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:

Individual subsidiary accounts should be “standalone” and disclose non-audit fees, if required, irrespective of disclosures in the consolidated accounts.

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:

It is desirable for clarity and to avoid misunderstandings.

There are anomalies and practical difficulties arising from company charities needing to comply with both company and charity law. It would be logical for charitable companies' accounting requirements to be the sole responsibility of the Charity Commission and for charity law to take precedence even if changes to charity law were required to accommodate accounting requirements for 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:

Flexibility in presentation enables the charity to fully illustrate its activities and results without being constrained by arbitrary based allocations to standard format and headings in financial statements.

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:

Company charities' gross income can be distorted and fluctuate from year to year as a result of exceptional or "capital" transactions such as substantial one-off donations or from sales of investments. Possibly size should be determined on the basis of gross income for any two of the latest three or four years.

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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