

MODERNISING COMPANY LAW

Acceptance by SPA of Simplifications Proposed

On behalf of our 1300 ICAEW member practices and the very significant number of our small private limited company clients, we are writing to endorse the general simplification of Company Law proposed by Government towards this sector of the business community as proposed in your report, and in particular we applaud the ‘think small first’ policy,

Whilst certain of the proposals are challenging, for example shortening of filing periods for statutory accounts, we believe these are attainable. We are also encouraged by the decision to put aside the proposed Independent Professional Review which, in our opinion, would be of little or no benefit to client companies.

Impact on small company accounts of ‘need’ for technical notes

There has been a trend over the last decade or so to impose increasing standards of technical presentation on private limited companies, but which standards are better suited to major concerns or plcs, resulting in small company accounts becoming interspersed with unintelligible (to the public) statements some of which contain obscure legal references.

Our experience is that getting all the words right on small limited company accounts has become at least as difficult as providing accounts that present a true and fair view of the company’s affairs, with statements of accounts filed with Companies House sent back for amendments to the peripheral ‘information’ rather than to the actual figures.

Preparation of Limited Company Accounts by Unqualified Accountants

An outcome of these increasing notations is that attention has been drawn away from the substance of the accounts themselves, and here examples can be provided of Companies House accepting incomplete or incorrect statements for filing where presented by unregulated or unqualified accountants.

Whilst our members are concerned with and proud of the quality of the accounts they prepare, and are currently engaged in a consultation process with our Institute on a wider demonstration that our standards are maintained, this does not protect the public when utilising the services of the less committed ‘unregulated accountants’.

SPA has previously made recommendations in this respect:

- That all small limited company accounts should have a Regulated Accountant’s Report attached stating they are true, fair and consistently prepared
- That, in the interest of protecting the general public, all unregulated individuals or groups offering accounting or taxation services to the general public should be licensed annually by the DTI so that minimum quality standards may be ensured.

Impact on Practising Accountants and Business Community of £1m Audit Threshold

Survey information obtained this year from both our members and professional indemnity insurers shows no adverse impact on the probity of small company accounts arising from the raising of the audit threshold from £350,000 turnover to £1 million. Of note, responses showed the average small practice manages 100 small business clients of whom 40% are incorporated.

Proposal to consider raising audit threshold to £4.8m

Our earlier analysis showed that average savings on annual accountancy plus audit charges should reduce by around 10%, indicating a saving of £85m to the community of companies between £1m and £4.8m turnover – a not insubstantial sum.

In our response to the DTI on 'Post Enron – Auditing and Accounting Issues' we reported that the recent American corporate scandals, had little or no impact on small companies, and repeated our support to raise the small company audit threshold to the European limit of £4.8 m turnover. Our belief remains that there is no connection between major public collapses and small private companies having very little or no public interest.

Of relevance our recent analysis found little evidence of declining incomes in small practices arising from the adoption of the £1m audit threshold, which tends to bear out our earlier argument that such small company audits were time consuming and unprofitable and, by raising audit thresholds, time can be freed up to provide more profitable business advice of real benefit to clients. We believe this improving service to the business community can only be enhanced should the European limit be introduced.

We are thus acutely interested in the outcome of your assessment of the impact of the July 2000 increase in the audit threshold and, if this Association can be of any assistance in providing more information in this connection, please let us know.