



## iGAAP Alert.

### Proposals to extend audit exemption to more small companies and certain subsidiaries

#### **In a nutshell**

At the time of the 2011 Budget the Government's Plan for Growth announced proposals to exempt further small companies and certain subsidiaries from audit, taking advantage of provisions in European law. The government proposals were published in October 2011 and, if the law is changed, it is proposed that the exemptions would be available for periods ending on or after 1 October 2012.

#### **Small companies**

The government is proposing to extend the small company audit exemption to companies meeting any two of the three criteria to qualify as small (turnover <£6.5m, gross assets <£3.26m, employees <50). Currently, the Companies Act 2006 requires that the turnover and balance sheet criteria are met. The government expects 36,000 additional small companies would be exempt compared to around 1.4 million that already take advantage of the exemption.

#### **Subsidiaries**

The government is proposing a new exemption for subsidiaries of EEA companies where the parent company is willing to guarantee a subsidiary's liabilities and the shareholders publicly agree to audit exemption. The guarantee would be on the public record and would be irrevocable until the company chooses to file audited accounts. In the consultation, the government is proposing that the guarantee would be of "debts" (contractual liabilities) rather than "liabilities" (which would also include contingent liabilities and claims in tort). The final rules on the guarantee will be very important and companies will not be in a position to take any further steps until the wording has been finalised. In any event, we encourage a measured approach to these exemptions following full consideration of the implications of granting guarantees.

In addition to the audit exemption for non-dormant subsidiaries, dormant subsidiaries would also be exempt from preparing and filing financial statements.

#### **Who can take advantage of the exemptions?**

All of these exemptions would be available to companies and limited liability partnerships. The government is, however, proposing that they would not be available to quoted companies or to entities involved in financial services or insurance.

**Date:** 6 October 2011

**Source:** Department for Business Innovation and Skills

**Deadline for comment:** 29 December 2011

**Further info:** <http://www.bis.gov.uk/Consultations/audit-exemptions-and-accounting-framework>

#### **Time to take action**

Consider the potential impact of the BIS proposals. The final rules on subsidiary guarantees will be dependent on the outcome of this consultation, so companies are encouraged to respond.

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