All change at Companies House

Presented by

John Selwood
Contents of Notes in Order of Presentation

Section 1: Introduction – change at Companies House

Section 2: Small business, enterprise and employment act

Section 3: Register of people with significant control

Section 4: Confirmation statements

Section 5: Changes to the accounts filing regime for small companies

Section 6: The micro company regime rebooted

Section 7: Changes for auditors
**Section 1: Introduction – change at Companies House**

Change at Companies House is happening. It might not be fast, after all it is part of government, but it is happening. The original implementation of Companies Act 2006 shook up various parts of the organisation and there has been more change since and significantly more to come. The big drivers of change are:

**Small Business, Enterprise and Employment Act**

This is covered in more detail later but is forcing Companies House to change their processes of annual returns and company registers.

**Companies Act 2006 amendments**

The accounting revolution will effect Companies House. Micro company accounting and the abolition of abbreviated accounts will forever change the landscape of filed accounts.

**The move online**

This is partly driven by the need to control costs but mostly this is about moving with the times. Will the register ever be online only? Of course! The question is when?
Sections 2: Small business, enterprise and employment act

In an attempt to deter illegal activity in business, such as money-laundering and tax evasion, there has been a change to UK company law in the form of *The Small Business, Enterprise and Employment Act 2015* which received Royal Assent on 26 March 2015 and forms part of the Government’s ‘Transparency and Trust’ proposals. The Act itself hit the statute books on 26 March 2015 but in recognition of the fact that companies will need time to prepare, a staged timetable has been introduced for implementation of the Act.

**Timetable**

Unfortunately the new legislation is going to cause an element of upheaval among companies and the following table highlights the main changes to company law, together with the implementation dates:

<table>
<thead>
<tr>
<th>Change in the law</th>
<th>Implementation date</th>
</tr>
</thead>
<tbody>
<tr>
<td>The prohibition of ‘bearer shares’</td>
<td>26 May 2015, with a nine months’ transitional period for existing bearer shares.</td>
</tr>
<tr>
<td>Accelerated striking off, from 3 months to 2 months from the date of publication in the Gazette</td>
<td>October 2015</td>
</tr>
<tr>
<td>Suppression of directors day of birth</td>
<td>October 2015</td>
</tr>
<tr>
<td>Replacement of ‘consent to act’ procedure for officers</td>
<td>October 2015</td>
</tr>
<tr>
<td>Prohibition of corporate directors, with exceptions</td>
<td>October 2015, with a 12 months’ transitional period for existing corporate directors</td>
</tr>
<tr>
<td>Maintenance of a public register of people with significant control for unquoted companies</td>
<td>Originally the implementation was January 2016 and details of these people to be provided annually to Companies House from April 2016. <em>This was moved to April 2016 and 30 June 2016.</em></td>
</tr>
<tr>
<td>New procedures for handling director and registered office address disputes</td>
<td>April 2016</td>
</tr>
<tr>
<td>Replacement of annual returns</td>
<td>Originally from April 2016 the annual return will be replaced with annual ‘confirmation statements’. <em>This was moved to April 2016 and 30 June 2016.</em></td>
</tr>
<tr>
<td>Ability to keep statutory registers at Companies House instead of having to keep own registers</td>
<td>June 2016</td>
</tr>
</tbody>
</table>

Be aware that more information will be held on the public record, as a consequence.

**Register of persons with significant control**

One of the most controversial aspects of this new piece of legislation is that individuals who have ‘significant control’ over a private company are to be
named on a public register. In broad terms, a person will have significant control where he or she holds or controls more than 25% of the company’s shares or voting rights. In addition, a person will have significant control where they have the power to appoint, or remove, a majority of the board (this can be directly, or indirectly, through a majority stake in another company).

**Bearer shares**

Bearer shares are fairly uncommon nowadays and so this issue is unlikely to affect very many companies. However, from 26 May 2015 companies will no longer be able to create bearer shares. Over the years such shares have been criticised because they allow the shareholders to remain anonymous. From 26 May 2015, existing holders of bearer shares will have nine months’ to swap their shares and be listed on the register of shareholders, after which time the shares will be cancelled. It is important, therefore, that companies which have holders of bearer shares, notify such holders as quickly as possible as to the consequences of not surrendering their shares.

**Corporate directors**

The new Act prohibits companies and other corporate entities from being appointed as directors. The reason for this prohibition is to restrict the use of corporate structures to hide illegal activity. The ban on corporate directors is expected to commence from October 2015 and for companies which currently have a corporate director, they will have a one-year transitional period in which to appoint replacement directors.

Despite the ban being primarily to restrict illegal activity, the government have acknowledged that in some instances corporate directors are appointed for genuine reasons and hence the government have said that they may introduce some exemptions from the prohibition of a corporate director and is currently consulting on whether a corporate director should be permitted if all of its directors (or equivalent officers) are natural persons and their details are held on a public register, such as that held at Companies House.

**Shadow directors**

The general duties of directors under sections 170 to 177 of the Companies Act 2006 will apply to shadow directors, to the extent that they are capable of applying. Shadow directors are not formally appointed as directors but the board follows the orders of such shadow directors. This change will apply from 26 May 2015 but it is currently unclear how this will operate in practice. Current advice to investors is to avoid ‘crossing the line’ between board engagement and board control and while the Act does empower the government to introduce further rules in this area, no such proposals have been published as yet.

**Insolvency and disqualification of directors**

The Act provides for a number of measures which have the objective of making it easier to pursue directors that do not comply with their obligations. The Act
will allow liquidators and administrators to bring law suits against directors for acts such as wrongful or unlawful trading as well as applying for creditor compensation orders against directors that have been disqualified.

In addition, the disqualified directors regime is also going to be updated and improved and will allow the Secretary of State to disqualified directors for misconduct in connection with companies that are located overseas. The courts will also be able to take account of a wider range of factors in arriving at a decision whether, or not, to ban a director.

The length of time that the Secretary of State will have in bringing disqualification action against a director following formal insolvency of a company is being extended from two years to three years.

**Annual returns**

The annual return which is currently lodged at Companies House is being replaced with an annual check-and-confirm ‘confirmation statement’. This form will also make the statements of capital easier to complete because the statement of capital is to be amended to remove the requirement for companies to include the amount paid up and unpaid on each share. Instead, companies will be required to specify the aggregate amount unpaid on the total number of issued shares.

The changes relating to the annual return are scheduled to come into force in June 2016 and companies will have to adjust to the new annual reporting regime. However, a benefit of the new regime is that it should be easier to align the timing of the preparation of the company’s confirmation statement with its annual accounts.

**Company registers**

Private companies will have the option to maintain certain information on the public register rather than on statutory registers. This will include information concerning shareholders, directors, secretaries and persons with significant control being maintained on a register at Companies House rather than maintaining their own registers. While this may sound helpful due to the reduced administration, it may be worthwhile for a private company to maintain their own register where such information changes infrequently, or where there are reduced confidentiality concerns as well as the fact that Companies House will charge for such a service.

**Director and registered office disputes**

When a director is appointed, they will not have to countersign the usual Companies House form to indicate their consent. Instead, Companies House will notify directors that they have been appointed as a company director. This will give the director chance to object and have their names removed if an erroneous appointment has been lodged at Companies House, or if the registration is bogus.
Striking off companies

The amount of time it takes for a company to be dissolved (whether voluntary or not) is to be reduced from three months to two months following publication of notice in the Gazette.

Companies House changes

In light of the above changes brought about by The Small Business, Enterprise and Employment Act 2015, there are going to be improvements to Companies House online facilities. Currently there are three services offered by Companies House:

- Webfiling;
- Webcheck; and
- Companies House Direct

The above will all be replaced by one unified online service – The Companies House Service. Webfiling, Webcheck and Companies House Direct will all run in parallel during the implementation of the new unified online service. There are some notable changes to the existing offering which include:

- the removal of the subscription-based Companies House Direct to a free of charge service;
- access to all document images on a free of charge basis, which will also include mortgage charges;
- removal of the form-based filing to a ‘click and confirm’ process which will make it easier to maintain company information; and
- an updated and user-friendly interface which will make searching for information more easier and quicker.
Section 3: Register of people with significant control

The government has also published the Register of People with Significant Control Regulations 2016. The majority of these regulations came into force on 6 April 2016.

The following notes set out an overview of the new requirements. It should be noted that the notes are not a substitute for reading the legislation.

**Register of persons with significant control**

Under this new legislation individuals who have 'significant control' over a private company are to be named on a public register. In broad terms, a person will have significant control where he or she holds or controls more than 25% of the company’s shares or voting rights. In addition, a person will have significant control where they have the power to appoint, or remove, a majority of the board (this can be directly, or indirectly, through a majority stake in another company).

In general, the five specified conditions which constitute ‘significant control’ are:

1. direct / indirect ownership of more than 25% of a company’s shares;
2. direct / indirect control of more than 25% of a company’s voting rights;
3. direct / indirect right to appoint / remove a majority of the board’s directors;
4. exercise / right to exercise significant influence or control over a company; or
5. exercise / right to exercise significant influence or control over activities of a trust or firm which itself meets one, or more, of the first four conditions.

Control which may be exercised indirectly via trusts or other companies. Whist the nature of the disclosures will be different, the ability to exercise significant control must still be recorded in the register.

There will be a legal obligation for an unquoted company to identify and keep up-to-date a register of persons with significant control. There will also be a history of control, so for example, where someone ceases to have a significant holding, this fact is noted against the record of that holding, along with the date that he or she ceased to hold the relevant shares.

Conversely those persons with significant control over the company will be obliged to disclose their identities to the company. Anyone will be able to inspect the register of persons with significant control if they have a ‘proper purpose’.

Companies will be required to provide information concerning persons with significant control to Companies House and this information will be available on the public record. To start with, updating will be on an annual basis, but from 2017 the government is planning to increase the frequency for Companies House filings to bring the new rules in line with the EU 4th Money Laundering Directive.
The register of persons with significant control must include similar details to those which are currently on the register of directors, along with the nature of the control that the person has over the company.

The residential address of a person with significant control will be protected (as is the case now for directors); however other information relating to the person with significant control may only be withheld in very limited circumstances, for example where the person with significant control (or someone living with such a person) is at a risk of serious violence or intimidation due to the company’s activities.

Whilst the residential address is protected, Companies House may disclosure the information to the “specified public authorities” listed in Schedule 3 of the Regulations. This long list includes:

- An official receiver appointed under section 399 of the Insolvency Act 1986 (appointment, etc., of official receivers).
- A person acting as an insolvency practitioner within the meaning of section 388 of the Insolvency Act 1986 (meaning of “act as an insolvency practitioner”) or article 3 of the Insolvency (Northern Ireland) Order 1989 (“act as an insolvency practitioner”).

Protection against disclosure to Schedule 3 bodies will only be allowed where it can be demonstrated that the applicant, or someone living with the applicant, are likely to be subjected to violence or intimidation as a result of the activities of the relevant entity. Protection is also available where the applicant is already exempt under existing legislation (Regulation 25).

### Obtaining the information

The basic obligation is for a company to take reasonable steps:

(a) to find out if there is one or more individual exercising significant influence (a registrable person) or one or more entities through which significant influence is exercised (a registrable relevant legal entity); and

(b) if so, to identify them.

The company then serves a notice on those individuals or entities.

An individual’s notice requires him or her to state whether he or she is a registrable person in respect of that company, and if so to confirm or correct the information in the notice, and supply any missing information.

A legal entity’s notice requires the addressee to state whether or not it is a registrable relevant legal entity in relation to the company, and if so to confirm or correct the information in the notice, and supply any missing information.

A company can also serve notice on a person under this section if it knows or has reasonable cause to believe that the person:

(a) knows the identity of a registrable person or a registrable relevant legal entity, or

(b) knows the identity of someone likely to have that knowledge.
Those receiving any such notice have one month from the date of the notice to comply with it. There is an exemption from providing information under a notice that is covered by legal profession privilege.

The company has a duty to keep the register up to date. It must give notices to the appropriate individuals or entities as soon as it learns of, or has reasonable grounds to believe that, a change has occurred that affects its entry in the register.

**Details of the register**

The register must show for registrable persons, their:
- (a) name
- (b) a service address
- (c) the country or state (or part of the United Kingdom) in which the individual is usually resident,
- (d) nationality,
- (e) date of birth,
- (f) usual residential address,
- (g) the date on which the individual became a registrable person in relation to the company in question,
- (h) the nature of his or her control over that company, and
- (i) a statement if any regulatory restrictions apply to using or disclosing that individual’s particulars.

For a registrable relevant legal entity the register must disclose the entity’s:
- (a) corporate or firm name,
- (b) registered or principal office,
- (c) the legal form of the entity and the law by which it is governed,
- (d) if applicable, the register of companies in which it is entered (including details of the state) and its registration number in that register,
- (e) the date on which it became a registrable relevant legal entity in relation to the company in question, and
- (f) the nature of its control over that company.

The company may only add details to the register that are confirmed. They are confirmed if the relevant person supplied or confirmed the information or another person supplied it with the relevant person’s knowledge.

The Regulations require the company to record, where appropriate:
- That there is no registrable person or registrable relevant legal entity. (Regulation 10)
- If it knows or believes there is a registrable person, but cannot determine who it is, it must state so for each such person. (Regulation 11)
- If the individual has been identified, but all the particulars have not confirmed, then it must state so for each such person. (Regulation 12)
All change at Companies House

- Where Regulations 10 – 12 don’t apply, it must state that it has not yet completed taking reasonable steps to find out if there is anyone who is a registrable person or a registrable relevant legal entity. (Regulation 13)
- That it has given notice to a registrable person (Regulation 14) or entity (Regulation 15) and has not received the necessary reply within the time limit.
- Where a notice is complied with late, update the Regulation 14 or Regulation 15 notice to state that it has now been complied with, and the date of compliance. (Regulation 16)
- Where a company issues or withdraws a restriction notice, or a court orders a notice to cease, record that fact along with the date of withdrawal or court order. (Regulation 17)

Schedule 2 includes the requirement to specify the bands of ownership within which a person of significant control sits. So, in terms of shareholding (Part 1), and voting rights (Part 2) the bands are that the person holds, directly or indirectly:

- More than 25% but not more than 50%;
- More than 50% but not more than 75%;
- More than 75%

A statement must also be made if the person:

- holds the right, directly or indirectly, to appoint or remove a majority of the board of directors of the company (Part 3).
- has the right to exercise, or actually exercises, significant influence or control over the company (Part 4).

The regulations that follow on deal with the statements needed where control is exercised through a trust (Part 5) or through a firm (Part 6).

Where a company does not have share capital, a reference to holding a particular percentage of shares in a company is to holding rights to share in that percentage of capital or, as the case may be, profits of that company (Part 7).

**Failure to comply**

At the outset it is important to point out that the new rules only apply to unquoted companies (i.e. private companies). Listed companies (including AIM-listed companies) are exempt from the requirements on the grounds that the disclosure requirements in DTR 5 already apply to shareholders of listed companies.

Where persons with significant control do not comply with their disclosure obligations, the company can impose sanctions such as loss of voting rights and transfer restrictions. A similar sort of regime exists with listed companies, but PLCs have to go to court to impose such sanctions, whereas private companies will not have to go to court.
Where a company fails to comply with its obligations under the new law, criminal penalties can also be imposed and such penalties will also extend to the company’s directors and company secretary.

The register will be extended to Limited Liability Partnerships through the Limited Liability Partnerships (Register of People with Significant Control) Regulations 2016.
Section 4: Confirmation statements

The annual return for companies has now been replaced with a confirmation statement. This means that the annual return form will only be relevant for those companies due to file by 30th June 2016. After this point a confirmation statement is needed instead. This will affect those companies that file their own annual returns and accountants or others who might provide company secretarial services.

The idea is that most companies will complete the confirmation statement online with the option to have an email alert when it is due. The statement confirms the details of the company’s:

- registered office;
- directors;
- secretary;
- the address where the company keeps its records;
- the statement of capital and shareholder information; and
- the SIC (standard industry classification code).

To complete your confirmation statement first go to the Companies House register, to check the information currently held. Then confirm the information, assuming it is correct, either online or using form CS01. It costs £13 to confirm online, but £40 by post. If you haven’t yet got a Companies House password and authentication code then you will need to register for these first.

If the information held by Companies House isn’t correct then changes to your statement of capital, shareholder information or SIC code can be made as part of the annual confirmation process. However, different forms are needed if there is a changes in the other information, such as the address or directors.

PSC register

The first time that you file your confirmation statement you will also need to provide the information from your PSC (Persons of Significant Control) register. The register has been required since April 2016, but prior to your first confirmation statement the information hasn’t been reported to Companies House.
Section 5: Changes to the accounts filing regime for small companies

Electronic filing of accounts

The following piece was written by John Selwood:

_Filing financial statements online – why wouldn’t you?_

In my company I do everything online; payroll, VAT and Corporation Tax. I make all travel arrangements online, I bill online and I get paid online. There is nothing unusual in this, most companies do.

Obviously, I also file my accounts at Companies House online. However, this is not so common. Companies House tell me that in 2015, only 70% of companies filed their accounts electronically, which surprises me. As a speaker on financial reporting I keep in regular contact with Companies House to keep up to date with the latest developments and they are as surprised as I am that the online filing of accounts has not kept pace with the online filing of other company documents such as annual returns and other forms, where 83% are filed electronically.

In my view the primary reason that accounts are still being filed in paper form is inertia. It is what companies and accounts are familiar with. Widespread online filing of various tax returns has been achieved through making it mandatory or financial incentives. There has been not similar moves with the online filing of accounts. For most accountants and companies there simply has not been a single good enough reason to change customary practise from that adopted in the past.

However, rather than focus on why companies do not file online I thought it would be more interesting to examine the reasons why filing accounts on line is better.

1. Corporation tax returns are online

For several years the electronic filing of Corporation Tax Returns has been mandatory together with XBRL tagged accounts. This means that the majority of accountants already have software that tags the accounts and that is capable of electronic filing at Companies House.

It seems more efficient to me to electronically file the accounts at Companies House at the same time as the Corporation Tax Returns are submitted to HMRC. Particularly for straight forward cases where all the necessary information will be readily available.

It is true that the filing deadline for the Corporation Tax Return is usually 12 months from the year end compared with the private company filing deadline at Companies House of 9 months. At first sight this appears to cause a problem with my argument. However, most smaller companies are able to compile the necessary information significantly before these deadlines and in any event the Corporation Tax liability is often calculated for the 9 month payment deadline.
2. **The process is getting simpler all the time**

Nearly all firms of professional accountants will already use third party software to produce the accounts and the electronic filing facilities in these products are now very good. These facilities enable electronic filing without the need to input additional data, so can be very efficient.

For those without their own accounts preparation software, Companies House templates are available for the most common types of company. Admittedly, the data will need to be manually input into the template, but those without accounts production software are likely to find it even more onerous to produce the paper accounts for filing using spreadsheets or word processing.

As more and more companies use third party products and Companies House templates, both are being constantly improved and are getting better and better.

3. **Reduced rate of rejection**

Here the statistics do not lie. Where accounts are filed in paper form the rate of rejection is 10%. The corresponding figure for electronic filing is just 2%!

Why is there such a difference? Filing paper accounts is like performing a flying trapeze act without a safety net. If you forget a signature, get a date wrong or misstate a Companies Act reference, and you do not spot the error in your proof reading, then the paper accounts will be rejected. Electronic filing simply does not give the preparer the opportunity for make one of these simple yet depressingly common mistakes.

The cost of having the accounts rejected is sometimes simply the time to correct the error, get the accounts resigned and resubmitted. For most professional accountants there is also a significant amount of professional embarrassment to add to this!

Also, it seems to be human nature to leave things to the last minute. As someone who writes professionally I appreciate this! Indeed Douglas Adams said “I love deadlines. I love the whooshing noise they make as they go by.” However, the prospect of a late filing penalty makes this less funny.

By the time that the rejected paper accounts are resubmitted, the filing deadline will often have passed and there will be a late filing penalty to add to the accountant’s professional embarrassment. Indeed, I know of many accountants who pay the penalty themselves if they consider the error to be their fault, but this does not address the other adverse issues such as the impact on the company’s credit rating.

This point is so important that is worth repeating, the statistics demonstrate that electronic filing reduces the chances of rejection and the consequent likelihood of late filing penalties.
4. Reduced opportunity for errors

Taking steps to avoid the accounts being rejected by Companies House is always nice, and should be encouraged, but it should not be the only goal. There are errors that the Companies House team do not spot but somebody else might. For instance I recently spotted a filed balance sheet that did not balance, because it did not add up! Electronic filing software would not have permitted this.

Also, the software should prompt the accounts preparer to include all the necessary disclosures and prepare the accounts in the right format.

Obviously, professional accountants will want to get the accounts right because that is what we do. However, it worth being aware that some professional disciplinary cases arise because of complaints about errors in accounts on the public record. I admit that when it comes to avoiding errors in the accounts electronic filing is no panacea, but it helps.

5. New UK GAAP

Assuming that you have not been living in a cave for the last three years you should be aware that the accounting standards are soon to go through a revolution.

This will impact upon all sizes of companies. Existing UK accounting standards are withdrawn for periods commencing 1 January 2015 and to a great extent replaced with FRS 102 The Financial Reporting Standard applicable in the UK and the Republic of Ireland.

The Financial Reporting Standard for Small Entities (FRSSE) is to be withdrawn for periods commencing 1 January 2016 and replaced with FRS 102 and a new micro company standard, FRS 105.

At the same time there are very significant changes to Companies Act 2006 in respect of accounting requirements, for periods commencing 1 January 2016 onwards. Amongst other things, there are new abridged accounts formats, changes to the size thresholds and most important of all, abbreviated accounts are to be withdrawn. This could result in significantly more information being in the filed accounts for small companies.

The change is so comprehensive that it is inevitable that mistakes will be made. Accounts will be rejected! As I have said before, electronic filing software will provide a more rigid framework and give you a better chance of avoiding the obvious pitfalls.

Another important factor in all this is the micro company accounting regime. I think that its simplicity compared with the new complexity of the small company regime will make micro company accounts very popular. Over 90% of UK companies will be eligible for the micro company regime and, in my view, most of them will take advantage of that option.
Micro company accounts, for filing, consist of little more than a heavily simplified balance sheet. Electronically filing this, even if you have to input the data manually, takes two minutes. I suggest that it might even be quicker to electronically file a micro company balance sheet than produce a covering letter for filing a paper version!

6. Improved credit rating

There are two reasons why filing accounts electronically might be useful when trying to improve a company’s credit rating.

Firstly, late filing damages a company’s credit rating and as I have already established 10% of paper accounts filed are rejected, most of which are then resubmitted late.

Secondly, accounts filed online get on the public record quicker. If a company has got good news to report then the credit rating agencies will see the good news that much quicker if the accounts are filed electronically.

7. Avoiding late filing and saving money on couriers

It is amazing how often accounts have to be couriered to Companies House on the filing deadline when electronic filing is a cheaper alternative.

Couriers are also used because some people are reluctant to use the post within a few days of the filing deadline because they are worried about a postal delay resulting in late filing. Again, electronic filing seems like a better option, particularly because when accounts are filed electronically, Companies House provide a submission receipt that provides added piece of mind that the accounts have been received.

8. Why wouldn’t you file the accounts online?

I return to where I started. Nearly everything else is online, so why file paper accounts at Companies House?

9. Will electronic filing become mandatory?

To begin with let me make in entirely clear that I do not have any inside information on this and nothing has been publicly announced, but it is inconceivable that the option to file paper copies of accounts will continue indefinitely. Eventually, online filing will be the only option.

New small company accounting regulations

On 29 August 2014, the Department for Business Innovation and Skills (BIS) issued a Consultation Document which outlined how it intends to implement the new EU Accounting Directive (the Directive) into companies’ legislation.

The legislation was finalised in March 2015 and represents some of the most radical change there has ever been to small company reporting in terms of what
is filed at Companies House. The additional information on the public record for small companies, when abbreviated accounts are abolished is likely to push most companies towards the micro company accounting regime.

**When does the change happen?**

The changes to the Companies Act 2006 apply from periods commencing 1 January 2016. Early adoption is permitted from periods commencing 1 January 2015. No ‘cherry picking’ is permitted for early adopters. It is all or nothing.
**Small company qualification criteria**

The most notable change within the new small company regime is an increase in the thresholds which determine the size of a company. BIS has chosen to take advantage of the maximum thresholds which the Directive makes available to Member States so as to allow 11,000 medium-sized companies to be re-categorised and allow them to take advantage of the small companies’ regime and hence make less disclosure than would otherwise be the case. In their response, BIS has also confirmed that they will also apply mandatory increases in the thresholds for medium-sized and large companies.

The new regime is summarised in the table below:

<table>
<thead>
<tr>
<th>Micro-entity</th>
<th>Turnover</th>
<th>Balance Sheet</th>
<th>Average no. of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Not more than £632,000</td>
<td>Not more than £316,000</td>
<td>Not more than 10</td>
</tr>
<tr>
<td>Small company</td>
<td>Not more than £10.2 million</td>
<td>Not more than £5.1 million</td>
<td>Not more than 50</td>
</tr>
<tr>
<td>Small group</td>
<td>Not more than £10.2 million NET or Not more than £12.2 million GROSS</td>
<td>Not more than £5.1 million NET or Not more than £6.1 million GROSS</td>
<td>Not more than 50</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Medium-sized company</th>
<th>Turnover</th>
<th>Balance Sheet</th>
<th>Average no. of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Not more than £36 million</td>
<td>Not more than £18 million</td>
<td>Not more than 250</td>
</tr>
<tr>
<td>Medium-sized group</td>
<td>Not more than £36 million NET or Not more than £43.2 million GROSS</td>
<td>Not more than £18 million NET or Not more than £21.6 million GROSS</td>
<td>Not more than 250</td>
</tr>
<tr>
<td>Large company</td>
<td>£36 million or more</td>
<td>£18 million or more</td>
<td>250 or more</td>
</tr>
<tr>
<td>Large group</td>
<td>£36 million NET or more or £43.2 million gross or more</td>
<td>£18 million NET or more or £21.6 million gross or more</td>
<td>250 or more</td>
</tr>
</tbody>
</table>

**Abridged accounts**

Regulation 16 amends Part 1 (general rules and formats) of Schedule 1 (Companies Act individual accounts) to the Small Companies Accounts Regulations by allowing a small company to prepare 'abridged' accounts provided that this has been approved by all of the company’s shareholders.
It is worth emphasising that the Regulations require the consent of ALL members when it comes to drawing up the abridged accounts. In addition, such consent can only be given in respect of the balance sheet or profit and loss account in respect of the preceding financial year and hence this consent is required to be given annually.

**Abbreviated accounts for filing with Companies House (companies subject to small companies regime)**

The concept of abbreviated accounts that have always been submitted to Companies has essentially been abolished. Regulation 21 repeals Schedule 4 SI 2008/409 which requires abbreviated accounts to be delivered to the Registrar of Companies (Companies House) to reflect the fact that small companies are no longer permitted to file accounts which are different to those which they prepare and send to shareholders. For small companies, Regulation 8(3) makes changes to section 444 of Companies Act 2006 concerning the filing obligations of a small company. The major change is that a small company will no longer be able to file annual accounts at Companies House which are an abbreviated version of the accounts which it prepares and sends to shareholders. Instead, a small company will file the versions of the balance sheet and profit and loss account (where the profit and loss account is filed) which are prepared and sent to the shareholders.

The revised section 444(1) says:

*The directors of a company subject to the small companies regime—*

(a) must deliver to the registrar for each financial year a copy of a balance sheet drawn up as at the last day of that year, and

(b) may also deliver to the registrar—

(i) a copy of the company’s profit and loss account for that year, and

(ii) a copy of the directors’ report for that year.

The revised section 444(2) says:

‘Where the directors deliver to the registrar a copy of the company’s profit and loss account under subsection (1)(b)(i) The directors must also deliver to the registrar a copy of the auditor’s report on the accounts (and any directors’ report) that it delivers.

‘This does not apply if the company is exempt from audit and the directors have taken advantage of that exemption.’

The final paragraph of the revised section 444(2) is important because many small companies are not subject to external audit and hence where audit exemption is taken by a company, any profit and loss account submitted to Companies House will therefore not be accompanied with an auditor’s report. A new section 444(2A) is inserted into the legislation saying:

‘Where the balance sheet or profit and loss account is abridged pursuant to paragraph 1A of Schedule 1 to the Small Companies and Groups (Accounts and
Directors’ Report) Regulations (S.I. 2008/409)(b), the directors must also deliver to the registrar a statement by the company that all the members of the company have consented to the abridgement.’

In drafting the legislation, BIS has suggested that allowing small companies to prepare an abridged balance sheet and abridged profit and loss account only if approved by all of the company’s shareholders will strike a balance between enabling simplification and protecting minority shareholder interests.

**Companies not delivering a profit and loss account to Companies House**

Where the directors of a company decide NOT to file a profit and loss account or a directors’ report then the copy of the balance sheet which is filed at Companies House must contain (in a prominent position) a statement that the company’s annual accounts and reports have been delivered in accordance with the provisions applicable to companies subject to the small companies regime. This requirement is contained in the revised section 444(5).

There are further points to note regarding small companies and their filing requirements under the new regime:

- **Section 444(5A)** states that where a company subject to the small companies’ regime does not deliver a copy of the company’s profit and loss account, the copy of the balance sheet filed must disclose that fact and unless the company is exempt from audit and the directors have taken advantage of that exemption, the notes to the balance sheet must satisfy the requirements in subsection (5B).

- **Subsection (5B)** says that the notes to the balance sheet must:
  - state whether the auditor’s report was qualified or unqualified;
  - where the report was qualified, disclose the basis of the qualification (reproducing any statement under section 498(2)(a) or (b), if applicable);
  - where the report was unqualified, include a reference to any matters to which the auditor drew attention by way of emphasis; and
  - state:
    - the name of the auditor and (where the auditor is a firm) the name of the person who signed the auditor’s report as senior statutory auditor; or
    - if the conditions in section 506 (circumstances in which names are omitted) are met, that a resolution has been passed and notified to the Secretary of State in accordance with that section.

- **Subsection (5C)** states that subsection (5A) [the first bullet point above] does not apply if the company qualifies as a micro-entity and the company’s accounts are prepared for a year in accordance with any of the micro-entity provisions.
Section 6: The micro company regime rebooted

The Companies Act 2006 was amended in 2013 to include a brand new micro company accounting regime. The exemptions were extremely generous but were largely ignored. The withdrawal of the FRSSE from periods commencing 1 January 2016 will force the corporate world to reappraise the usefulness of the new micro regime, particularly as the FRC have published a new accounting standard to accompany it.

On 16 July 2015, the Financial Reporting Council (FRC) issued the final standards which will be applied by small and micro-entities in the UK and Republic of Ireland. This marked the end of several years of work by the FRC in developing a financial reporting framework which is based on international standards.

The new regime will apply to accounting periods commencing on or after 1 January 2016 and earlier adoption is permissible. However, if a small company or a micro-entity wishes to early-adopt the new regime it must adopt the new package of standards – in other words a company which is now small under the new framework cannot take advantage of early-adoption and use the FRSSE (effective January 2015) – it must apply the new rules.

The FRSSE (effective January 2015) will be withdrawn in its entirety for accounting periods commencing on or after 1 January 2016 and new UK GAAP will be structured as follows:

- EU-adopted IFRS
- FRS 100 Application of Financial Reporting Requirements
- FRS 101 Reduced Disclosure Framework
- FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland
- FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland with reduced disclosures
- FRS 103 Insurance Contracts
- FRS 104 Interim Financial Reporting
- FRS 105 The Financial Reporting Standard applicable to the Micro-entities Regime

**FRS 105 The Financial Reporting Standard applicable to the Micro-entities Regime**

FRS 105 is based on FRS 102 because the Accounting Council of the FRC wants consistency across the financial reporting framework in the UK and Republic of Ireland. It is to be noted that at the time of writing these notes there was no equivalent legislation in the Republic of Ireland for micro-entities and hence a company which might fall to be classed as a micro-entity in the Republic of Ireland cannot use FRS 105 until the legislation is enacted.
FRS 105 has significantly simplified financial reporting for micro-entities and the Accounting Council acknowledged that it would not have gone as far as the Directive has gone in making these simplifications. Many of the disclosures that have traditionally been necessary to enable a true and fair view have been removed in FRS 105 because the EU Accounting Directive does not require certain disclosures to be made. In addition certain accounting options have been removed; for example a micro-entity cannot carry investment property at fair value; it must carry the property at cost less accumulated depreciation and accumulated impairment losses. This is one of the accounting treatments which the Accounting Council does not support as it views the revaluation model as being more appropriate to investment property as such a model provides more relevant and reliable information.

**Key differences: FRSSE versus FRS 105**

Some of the key differences between the FRSSE (effective January 2015) and FRS 105 are outlined in the following table:

<table>
<thead>
<tr>
<th>FRSSE (effective January 2015)</th>
<th>FRS 105</th>
</tr>
</thead>
<tbody>
<tr>
<td>The directors have a legal obligation to ensure the financial statements give a true and fair view and hence must make appropriate disclosures where necessary.</td>
<td>Financial statements prepared to the minimum legal requirements are presumed to give a true and fair view. The directors do not need to consider any additional disclosures needed for the financial statements to give a true and fair view.</td>
</tr>
<tr>
<td>A Format 1 or a Format 2 profit and loss account can be prepared.</td>
<td>Only a Format 2 profit and loss account is permitted, structured as follows:</td>
</tr>
<tr>
<td></td>
<td>- Turnover</td>
</tr>
<tr>
<td></td>
<td>- Other income</td>
</tr>
<tr>
<td></td>
<td>- Cost of raw materials and consumables</td>
</tr>
<tr>
<td></td>
<td>- Staff costs</td>
</tr>
<tr>
<td></td>
<td>- Depreciation and other amounts written off assets</td>
</tr>
<tr>
<td></td>
<td>- Other charges</td>
</tr>
<tr>
<td></td>
<td>- Tax</td>
</tr>
<tr>
<td></td>
<td>- Profit or loss</td>
</tr>
<tr>
<td>A statement of total recognised gains and losses is needed where amounts have been taken to equity.</td>
<td>No statement of total recognised gains and losses is required.</td>
</tr>
<tr>
<td>The balance sheet is disaggregated e.g. tangible fixed assets are split into various components (intangible, tangible and investment property).</td>
<td>No disaggregation of the balance sheet is permitted hence there will only be one line item showing ‘Fixed assets’. Current assets are not split into the order of liquidity (stock, debtors, bank and cash); only one line item showing ‘Current assets’ is required.</td>
</tr>
</tbody>
</table>
More disclosures are needed for the financial statements to give a true and fair view.

The FRSSE allows fair value accounting or amounts to be carried at revaluation.

More accounting policies are allowed in the FRSSE (e.g. capitalisation of development costs and borrowing costs).

Company law requirements are reproduced in the FRSSE.

Deferred tax is recognised using the timing difference approach.

Equity-settled share-based payment transactions are disclosed in the notes.

<table>
<thead>
<tr>
<th>Changes in Financial Reporting Standards</th>
<th>Changes in Company Law</th>
</tr>
</thead>
<tbody>
<tr>
<td>More disclosures are needed for the financial statements to give a true and fair view.</td>
<td>Only disclosures in respect of advances, credit and guarantees granted to directors and financial commitments, guarantees and contingencies are disclosed at the foot of the balance sheet.</td>
</tr>
<tr>
<td>The FRSSE allows fair value accounting or amounts to be carried at revaluation.</td>
<td>No fair values or revaluation amounts are allowed under FRS 105. All previous fair values/revaluation amounts must be removed on transition and in the comparative year.</td>
</tr>
<tr>
<td>More accounting policies are allowed in the FRSSE (e.g. capitalisation of development costs and borrowing costs).</td>
<td>No accounting policy choices exist in FRS 105 and hence most transactions will be recognised in profit or loss rather than deferred in the balance sheet.</td>
</tr>
<tr>
<td>Company law requirements are reproduced in the FRSSE.</td>
<td>Not all company law requirements have been reproduced – only those which relate to the financial statements themselves have been reproduced.</td>
</tr>
<tr>
<td>Deferred tax is recognised using the timing difference approach.</td>
<td>Deferred tax is prohibited.</td>
</tr>
<tr>
<td>Equity-settled share-based payment transactions are disclosed in the notes.</td>
<td>No equity-settled share-based payment transactions are either accounted for or disclosed.</td>
</tr>
</tbody>
</table>

**Issues to be considered where FRS 105 is concerned**

The FRC are keen to emphasise that while FRS 105 is the least complex framework, accountants should consider the ‘bigger picture’ when advising a client as to which framework to apply in the preparation of their financial statements. While a micro-entity may qualify to use FRS 105, it might not necessarily be the most appropriate framework – particularly if the entity has borrowings, or is trying to obtain finance, because the disclosure requirements are significantly reduced.

Other factors to consider include:

- the eligibility criteria – for example a company whose financial statements are included in group accounts cannot apply the micro-entities regime; eligibility criteria is very restrictive;
- the scope for producing non-statutory information; for example if the client undergoes an enquiry from HMRC or the bank require more details about the financial statements;
- the pace of growth of the company; for example if the client is expected to grow at a rapid rate it might be more beneficial to choose a more comprehensive financial reporting framework; and
• the impact that the prohibition of fair values/revaluation amounts might have on the company’s balance sheet and credit-rating.
Section 7: Changes for auditors

The Companies Act 2006 (Part 16) has been amended by Section 18 and Schedule 5 of the Deregulation Act 2015 for financial years starting on or after 1 October 2015. The objective of the Deregulation Act as it applies to auditors is to simplify the reporting protocol required to be followed when an auditor ceases to act.

Notifying Companies House

The Deregulation Act has removed the requirement in section 512 Notice to registrar of resolution removing auditor from office for a company to notify Companies House of the fact that it has removed its auditors before the end of the period in office. This relaxation means that it is now no longer necessary for a company to notify the removal of auditors on form AA03.

In addition, section 517 Notice to registrar of resignation of auditor has also been abolished which required an auditor to notify Companies House of their resignation. This means that the auditor’s resignation letter need not be lodged with Companies House and filed on the public record.

Statement of reasons on ceasing to hold office

Section 519 Statement by auditor to be deposited with company has been amended so that it always requires the auditor of a ‘public interest company’ (rather than a ‘quoted company’) to send the company a statement of reasons when the auditor ceases to hold office prior to the end of their term of office (and to lodge a copy of that statement at Companies House). A ‘public interest company’ is defined as any company whose transferable securities are listed on the Official List or whose equity share capital is officially listed in a European Economic Area state. This statement must always be sent to the company regardless of the timing, or reasons, for ceasing to hold office.

There are certain exceptions that have been introduced for auditors of non-public interest companies. These exceptions apply when:

- the auditor’s term of office has come to an end, which for a private company would be the end of a period for appointing auditors; or
- the auditor ceases to hold office during their term of office and their reasons are ‘exempt’ reasons (see below) and there are no connected matters which the auditor considers needs to be brought to the attention of creditors or members of the company.

Rights of resigning auditor

The right of the auditor to call a shareholders’ meeting to explain his/her reasons for resigning will not apply where the auditor’s statement confirms that their reason for ceasing to hold office, and no connected matters, need to be brought to the attention of shareholders or creditors. Section 520 Company’s duties in relation to the statement and section 521 Copy of statement to be sent to registrar reflect the new provisions such that the effect will be that where the
auditor’s statement includes such a declaration that there are no connected matters which the auditor considers needs to be brought to the attention of creditors or shareholders, then there is no need to circulate a copy of the auditor’s statement to its shareholders and creditors and the auditor does not need to send a copy of the statement to Companies House.

Resignation of the auditor

Section 516 Resignation of auditor has been amended at subsection (2) which said that a notice of resignation sent by an auditor of a company is ineffective if that notice is not accompanied by the statement required by the current section 519. The amendment to section 516 means that an auditor’s notice of resignation will only be ineffective if the auditor is resigning from a public interest company and that notice is not accompanied by a statement pursuant to the revised section 519.

Notification to the audit authority

In the UK, the audit authority for listed companies is the Financial Reporting Council (FRC). For unlisted companies the audit authority is the relevant professional body. Section 523 Duty of company to notify appropriate audit authority has been amended to exempt companies from the requirement to notify the FRC of the fact that its auditors have ceased to act where the company reasonably believes that the auditor’s reasons for ceasing to hold office were all ‘exempt reasons’ (see below). The revised section 523(2A) says that the company’s notice to the relevant audit authority must be a statement by the company of what it believes to be the reasons for the auditor’s departure. New section 523(2B) and (2C) also allows, as an alternative, a company to provide an ‘endorsed’ copy of the auditor’s statement under new section 519(1) if it agrees with that statement and the company receives it on time. This must be sent within 28 days of the auditor ceasing to hold office.

Section 522 Duty of an auditor to notify appropriate audit authority previously specified various circumstances in which an auditor was required to notify the audit authority of his/her reasons for leaving office. The effect of the amendments to section 522 will mean that the auditor is only required to notify the appropriate authority if they are required to send a statement to the company in accordance with the new section 519(1).

Electronic communication

The requirements for documents to be ‘deposited’ in Part 16, Chapter 4 have been replaced with the word ‘sent’ so as to facilitate the use of electronic communication.

Information provided to the audit authority

The requirement in section 524 Information to be given to accounting authorities for an audit authority to inform the accounting authorities (the FRC’s Conduct Committee and the Secretary of State) about an auditor’s departure has been removed, but it still allows them to do so.
**Exempt reasons**

Exempt reasons for the purpose of section 519(3) include:

- the auditor ceases to practise as an auditor (e.g. before of retirement or a change of career);
- the company that the auditor is ceasing to act for qualifies for one of the exemptions from audit under the Companies Act 2006;
- the auditor is ceasing to act for a ‘subsidiary’ company of a UK incorporated parent because the accounts of the subsidiary are to be audited as part of the audit of the group accounts by the parent’s auditor; and
- the company that the auditor is ceasing to act for is being liquidated through an insolvency procedure.