

UK audit market for SMPs and SMEs – challenges and opportunities.

A practitioner's perspective.

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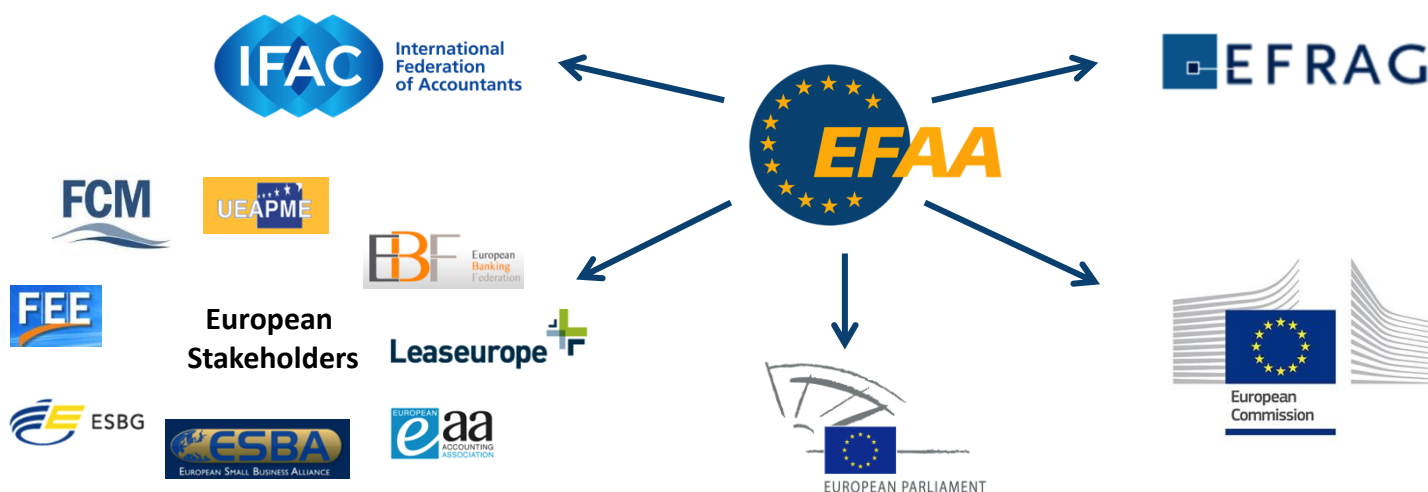
Padova, 14 April 2016

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EFAA: What We Do

- EFAA assists member organisations to strengthen SMPs and SMEs in public affairs
- EFAA has more than twenty years of experience in engaging with European Institutions, European SMP/SME accounting and auditing stakeholders and IFAC



EFAA: What We Do

- EFAA provides a high-level public affairs solution for its members in Europe

INFORM

EFAA Action	Member Benefit
Provide intelligence on policy and key political figures	Insights and updates for your leadership team; Content for your member magazine/ website;
Provide guidance and expert opinions	Insights and updates for your leadership team, and for distribution to your members
Conferences and round tables	Take part in conferences and round tables, and/or offer participation to your members, possibly as CPD event

ADVOCATE

EFAA Action	Member Benefit
Respond to European Commission consultations	The SMP/SME perspective of your members is taken into account in official consultations
Policy Papers	Evidence-based policy papers shaping a political agenda favorable to Europe's SMPs and SMEs
Back-channel talks	Direct access to policy makers and insights beyond the publicly available knowledge

CONNECT

EFAA Action	Member Benefit
Provide a platform for Europe's professional associations in SME accounting, auditing and tax advice	Meet the leadership and members of your European colleagues; connect your members with professionals from all over Europe
Provide platform for the exchange of professional expertise	Work with the experts from other professional associations in one of our expert groups
Organise conferences and round tables	Meet policy makers, scholars and colleagues from all over Europe, and offer the opportunity to do so to your members

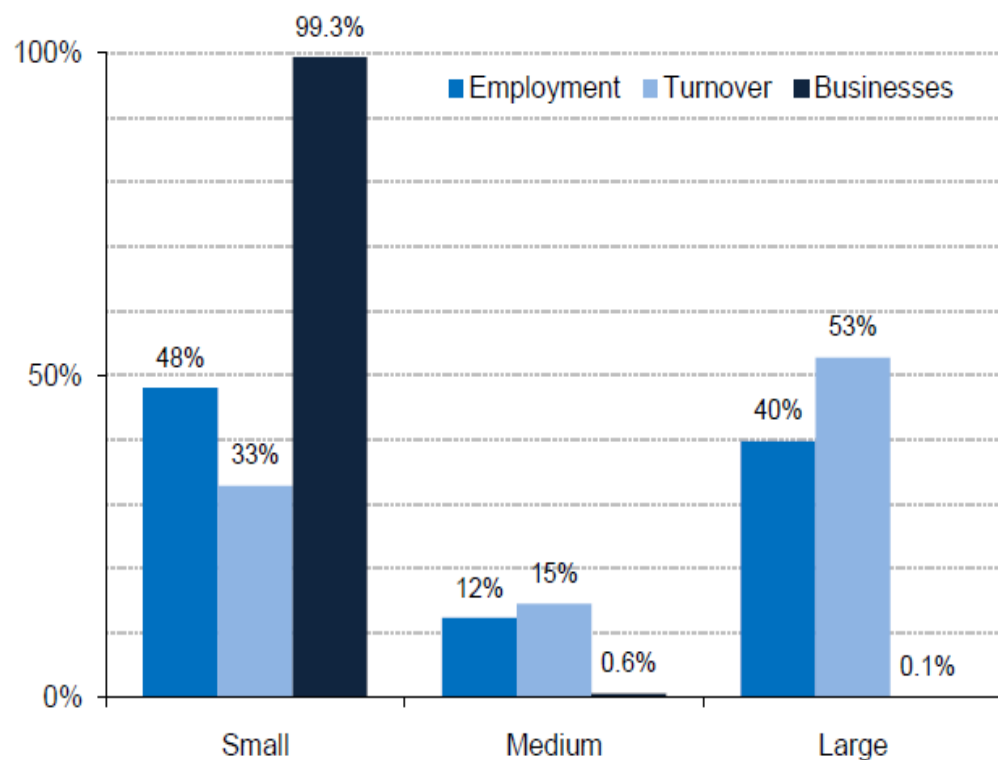
About

- Established ~ 40 years ago
- Barnsley, North of England
- 40 staff
- Wide range of clients
 - ❖ Small, medium, large
 - ❖ Private
 - ❖ “Not for profit”
 - ❖ UK and overseas
- Holistic service offering
- Audit & assurance a key element



SMEs and market concentration

Contribution of different sized businesses to total business population, employment and turnover, at start of 2015.



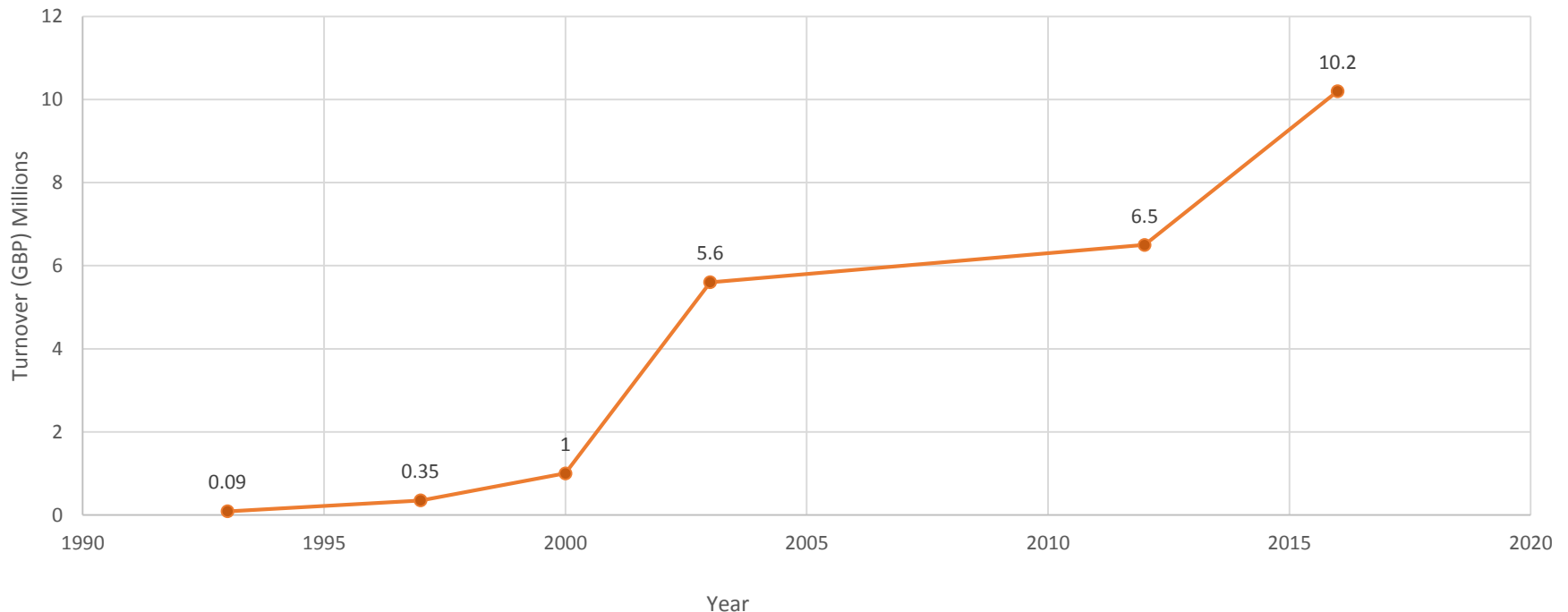
	Number of businesses	Percentage of businesses
Small	5,349,930	99.27%
Medium	32,555	0.60%
Large	6,965	0.13%
	5,389,450	100.00%

Small: 0-49 employees
SMEs: 50-249 employees

Source: BIS URN 15/92: Business Population estimates for the UK and regions 2015

Audit requirements for SMEs

- The smallest of companies have been exempt from the requirement to have an audit in the UK since 1993.
- Since this time the thresholds have increased thereby extending the audit exemption from the requirement to have a statutory audit to more SMEs.



Audit requirements for SMEs

- The latest change was announced on 26 January 2016 when the UK government made the following statement:

“Companies will not be required to have an audit for the financial years commencing on or after 1 January 2016 if at their balance sheet date they satisfy at least two of the three following criteria, in general for two consecutive financial years:

Turnover \leq £10.2m, Balance sheet total \leq £ 5.1m, Number of employees \leq 50

and they are not otherwise excluded from accessing the audit exemption, for example due to the nature of their business.”¹

- So what can we conclude?

The vast majority of UK companies are small companies (99.27%) and **small** companies (in general) are not required to have a statutory audit.

Therefore, **the majority of UK companies are not required to have a statutory audit.**

¹ Source: <http://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2016-01-26/HCWS491/>

UK Audit & Accountancy Profession

- UK FRC publishes information on the UK accounting profession annually.
- Thirteenth edition published June 2015 with the following highlights:
 - ❖ Total membership of the accountancy bodies continues to grow steadily. The seven bodies included in the report have over 335,000 members in the UK and ROI and over 485,000 members worldwide.
 - ❖ There are over 166,000 students in the UK and ROI and over 545,000 worldwide. Student numbers increased in 2014 by 3% worldwide and fell by 0.8% in the UK and ROI.
 - ❖ The number of registered audit firms continues to decline gradually. The overall number of registered audit firms was 6,622 as at the 31 December 2014, a fall of 4.9% since 31 December 2013.
 - ❖ Audit fee income per Responsible Individual has seen very little change in 2014.
 - ❖ There has been little change in recent years in the proportion of listed companies audited by many of the larger registered firms outside the Big Four.
- So what can we conclude?
 - ❖ UK accounting profession is growing steadily
 - ❖ “Big 4” audit the big companies
 - ❖ The number of registered audit firms is falling
- Fewer UK SMPs involved in audit?
- Has the market for audit for SMPs and SMEs declined?

¹ Source: [https://www.frc.org.uk/Our-Work/Publications/Professional-Oversight/Key-Facts-and-Trends-in-the-Accountancy-Profes-\(1\).pdf](https://www.frc.org.uk/Our-Work/Publications/Professional-Oversight/Key-Facts-and-Trends-in-the-Accountancy-Profes-(1).pdf)

The 99.9%: small and medium sized businesses, who are they and what do they need?¹

- SMEs should not necessarily be judged as one group – 99.9% of companies in the UK cannot be exactly the same:
 - ❖ Different aspirations
 - ❖ Different needs
 - ❖ Different sectors
 - ❖ Different growth
- The demand and requirement for services changes over time:
 - ❖ Accounts preparation and bookkeeping more popular when businesses are smaller
 - ❖ Growing businesses often CHOOSE to have an audit (when not required to have one)
- The value of the SME accountant is NOT to be understated with businesses overwhelmingly reporting an accountant as their most trusted adviser

¹[https://www.icaew.com/~media/corporate/files/technical/audit%20and%20assurance/small%20business%20matters/the%2099%20percent%20small%20and%20medium%20sized%20businesses%20finalpdf.ashx](https://www.icaew.com/~/media/corporate/files/technical/audit%20and%20assurance/small%20business%20matters/the%2099%20percent%20small%20and%20medium%20sized%20businesses%20finalpdf.ashx)

The 99.9%: small and medium sized businesses, who are they and what do they need?¹

- What do SMEs buy - popular and unpopular services:
 - ❖ Accounts preparation (65%)
 - ❖ Tax services (62%)
 - ❖ Bookkeeping (32%)
 - ❖ Audit (28%)
 - ❖ Business advice (25%)
 - ❖ Review of the financial statements (14%)
- The larger a company is, and the more it wishes to grow in the next five years, the more it is likely to be in favour of mandatory audit for similar businesses.
- Nearly a quarter of small businesses feel that audit should be mandatory for businesses like them, while just over half disagree.
- Although audit is not mandatory for small businesses, 57% say that they have had one in the past 12 months, and a further 30% have had a review of their financial statements.

My perspective – challenges in today's audit market

Challenges	Opportunities
<ul style="list-style-type: none">• The increased audit thresholds exempt more SMEs from statutory audit	<ul style="list-style-type: none">• Many SMEs opt for a voluntary audit or some form of assurance: voluntary audit, review, agreed upon procedures and compilation.• UK government may well believe that audit is a burden on SMEs and exempt them from statutory audit but “not for profit” entities are not exempt – emerging market and specialisms
<ul style="list-style-type: none">• ISAs – the debate over proportionality and cost/benefit continues	<ul style="list-style-type: none">• All audit firms have access to audit software - level playing field on which you can exercise judgement
<ul style="list-style-type: none">• Quality control and particularly peer reviews can be challenging in smaller practices	<ul style="list-style-type: none">• SMPs can outsource reviews (objective, benchmarking, puts emphasis on the QC process)

My perspective – challenges in today's audit market

Challenges	Opportunities
<ul style="list-style-type: none">• Independence and objectivity can be challenging for smaller practices	<ul style="list-style-type: none">• Independence and objectivity can be enabled by separation of client teams and proper planning
<ul style="list-style-type: none">• Continual changes to: regulation, oversight, CPD, ISAs and ethical standards	<ul style="list-style-type: none">• Being an accountant means being up to date so that you can properly support the growth of SMEs with a product that they value.• SMPs play a valuable role in SME sustainability and they will need different services as they grow and develop.• Make sure that you are able to provide a holistic service in a professional and competent manner.

Thank you!



Marie Lang

Marie Lang is Head of Corporate Finance at GBAC, Barnsley, UK and EFAA's Director of Professional Development. She graduated with honours with a degree in Economics from Lancaster University, England and is a Chartered Accountant and Fellow of the ICAEW. She worked for KPMG for 9 years and then spent 8 years in the position of Head of Finance for one of the UK's largest truck exporters

Marie is an auditor but her main role is Head of Corporate Finance for GBAC.

Marie is a Member of both the IAASB and IESBA Consultative Advisory Groups.

The European Federation of Accountants and Auditors for SMEs

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