



Accountancy and Auditing for Small and Medium Companies

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Summary

Most small and medium-sized companies rely on external accountants. Satisfaction with the accountancy profession is generally high. There is confusion among many managing directors about their eligibility for exemption from filing audited accounts at Companies House and even over what information their company files. Despite the widening of the audit exemption, use of accountants seems to have increased over the past five years.

- Over 80% of companies use some external support for accountancy work, mainly to prepare statutory financial accounts and completion of other tax returns.
- Almost two-thirds have no internal accountancy staff. This rises to over 80% of those with a turnover under £1m.
- The use of external accountancy support generally falls as firm size and internal resources increase, though the very smallest are an exception as significant numbers of these get by without external help.
- More companies report that they have increased their use of accountants over the past five years than report that they have reduced it.
- A quarter of the managing directors of the smallest companies do not know whether their firm is exempt from the need to file audited accounts at Companies House. One in ten admits to not knowing what type of accounts their company files. Even more appear to be mistaken about their answers to these two questions.
- The most important reasons for continuing to have accounts audited even when exempt are that they are considered useful to banks and other lenders and to give management confidence in controls.
- 60% of the smallest companies in the survey do not regularly supply any information to external stakeholders, compared with only 6% of the largest companies taking part.
- 84% of managing directors believe that the accountancy profession offers appropriate support to help their business with its accounting and auditing needs.
- Only one in ten believe that accountants could do more to help them.
- Companies will change their accountants if they are not satisfied - usually for reasons of cost or quality of service, but also if a key contact leaves or the accountancy firm changes or is taken over.
- Only one in five has experienced significant problems in relation to accounting and auditing.

Internal and External Support

Over 80% of companies use external accountancy services. Generally, larger companies are more likely to have internal accounting resources and so make less use of external accountancy and bookkeeping firms. However, a significant minority of the very smallest companies manage to get by without the expense of external support. On balance, companies report increasing their use of accountants over the past five years.

Internal accounting resources

There is a clear division between the smallest firms taking part in our survey and their medium-sized counterparts regarding internal accountancy resources.

Most (83%) of companies with a turnover below £1m have no internal accountancy staff (Table 1.1). Only just over 10% have directors or staff members who are qualified accountants (and 2% are themselves accountancy firms or financial advisors).

In contrast, 87% of companies with a turnover of £5.6m or more have directors or staff who are qualified accountants and only 11% have no internal accountancy staff.

Larger companies more often have non-executive directors with accountancy skills, though this rises only as far as 13% of the firms with a turnover over £5.6m.

Audit committees are the preserve of the medium-sized companies in our survey. 12% of those with a turnover of over £5.6m have an audit committee, compared with less than 1% of smaller companies.

Table 1.1: "Does your business have any of the following?" - by annual turnover

	Less than £250,000	£250,000- £999,999	£1m- £5.6m	£5.6m- £22.8m	Sample
Directors or staff members who are qualified accountants	13%	10%	35%	87%	31%
Non-executive directors with accountancy skills	5%	8%	13%	13%	10%
An audit committee	1%	0%	1%	12%	3%
No internal accountancy staff/no response	83%	84%	58%	11%	64%
Sample	160	155	180	85	601

Table 1.2: "Does your business have any of the following?" - by number of people who work in the business

	1-4	5-19	20-49	50+	Sample
Directors or staff members who are qualified accountants	10%	17%	39%	75%	31%
Non-executive directors with accountancy skills	5%	9%	13%	16%	10%
An audit committee	1%	0%	3%	10%	3%
No internal accountancy staff/no response	86%	76%	54%	21%	64%
Sample	169	195	114	117	601

Table 1.2 measures company size by the number of people who work in the business and also reveals the effects of size clearly. The proportion of companies that have directors or staff members who are qualified accountants or non-executive directors with accountancy skills rises consistently as the size of the business increases.

Companies with external shareholders not participating in the management of the business are far more likely than other companies to have non-executive directors with accountancy skills. Some 19% of these companies, compared with 8% of those without external shareholders, have non-executive directors with accountancy skills.

External accountancy support

The relationship between firm size and use of external accountancy resources is more complex.

Table 1.3 shows that almost a quarter of medium-sized companies (with a turnover of between £5.6m and £22.8m) do not report using any external support to help with accountancy work¹. Of those that do, nearly all use a firm of chartered accountants.

Companies with a turnover between £1m and £5.6m also rarely use other types of accountants or bookkeepers, but fewer (16%) say that they rely on in-house expertise.

Those with a turnover between £250,000 and £1m least often rely on in-house support, with 94% using some sort of external support. This is most often a firm of chartered accountants, though other firms of accountants and external bookkeepers are also used by a considerable minority of these firms.

Nearly one in five (19%) of the very smallest companies taking part in the survey (those with a turnover below £250,000) get by without any external accountancy support. This is more than their larger counterparts with a turnover between £250,000 and £5.6m. Over half of these which produce their accounts in house are the atypical smallest firms who have internal accountancy resources. Some of the others will have relatively simple accountancy needs. The managing director of one notes that they are “able to submit accounts in Excel” and another that “business dropped dramatically and [I] cannot justify the cost of external accountants”.

Although these smallest firms most often use chartered accountants, 16% use non-chartered accountants and 11% use an external bookkeeper.

If company size is measured by staff size rather than sales turnover the pattern is the same - the use of external support falls modestly with firm size, with the exception of the very smallest firms, a significant minority of which get by without external support, at the expense of chartered accountants.

One of the commonly cited ‘other’ sources of external support is the Sage accountancy package and its company help-line.

Table 1.3: “Which of the following types of external support do you use to help with accountancy work?”
- by annual turnover

	Less than £250,000	£250,000- £999,999	£1m- £5.6m	£5.6m- £22.8m	Sample
Firm of chartered accountants	61%	81%	78%	69%	72%
Other firm of accountants	16%	10%	3%	4%	9%
External bookkeeper	11%	11%	4%	4%	8%
Other type of external support	3%	6%	4%	6%	4%
No external support	19%	6%	16%	24%	17%
Sample	160	155	180	85	601

¹ Over a third (34%) reported that their accountancy work was all done in house, but some of these also reported that they used external support (a few explicitly mentioned using an external auditor and some of the others may have had in mind a similar secondary role). The 24% figure is imputed from respondents who did not indicate any of the sources of external support.

**Table 1.4: "Has the amount you use external accountants changed in the past five years?"
- by audit exemption status**

	Exempt	Not exempt	Sample
Increased use of firm of external accountants	21%	20%	21%
Reduced use of firm of external accountants	17%	9%	13%
No significant change	61%	68%	64%
No response	1%	3%	2%
Sample	283	220	601

Changes in the use of external accountants

A clear majority of both audit exempt and non-exempt companies report that their use of external accountants has remained unchanged over the past five years. The companies that have reported a change have, on balance, increased the amount they use external accountants over the past five years. Table 1.4 shows that 21% report that their use has increased, while only 13% report that it has decreased. This is despite the fact that measures such as the extension of the audit exemption at Companies House, designed to reduce the burden on small firms, have been introduced (the turnover threshold was raised from £1m to £5.6m from 2004). Table 1.4 shows that firms which are now exempt from the requirement to file audited accounts are indeed almost twice as likely as those which are not exempt to report having reduced their use of external accountants. Even within this exempt group, however, more firms have increased their use of external accountants than have decreased them.

The youngest firms in our survey, which may well have been going through an initial growth phase during the past five years, have, on balance, most often increased their use of accountancy services (for those trading less than ten years, 21% have increased and only 9% decreased their use of external accountants). Surviving companies of all ages, though, report that they have increased their use of external accountants over the past five years. There does not seem to be a consistent pattern relating changed use of external accountants to firm size.

Respondents were asked if they had changed between external accountancy firms in the past five years to explain why. The most common reason given was cost (about 5% of the sample reported that they had changed accountants or dispensed with their services to save money). The next most often cited reason was quality of service (some said that cost and level of service were both factors).

The relationship with a firm of accountants is clearly often a personal one - a number of companies changed their accountants when the partner dealing with their affairs moved on.

Some companies have found large accountancy practices (especially ones which had grown or been taken over) unsuited to their needs or failing to give them priority and changed to smaller, often local, firms. On the other hand, some companies which have grown have benefited from changing to a larger or more specialised firm.

Some companies have been able to bring more of the accounting functions in-house as their own experience has increased or new staff have been recruited.

A few mentioned that as they no longer need audits they have been able to dispense with their accountants.

Services from accountants

Table 1.5 shows that by far the most common services for which these companies use a firm of accountants are preparation of statutory financial accounts (84%) and completion of other tax returns (64%).

Table 1.5 also confirms the pattern established in the earlier question on use of external accountancy support. The proportion of companies which use the two key services peaks for those in the £250,000-£999,999 turnover size band (and, when analysed by employment, for those with 5 to 19 employees). For larger firms the proportion gradually declines as they more often have comprehensive internal accountancy support. For the very smallest firms in the survey the proportions using each service are lower as some of these firms have simpler requirements and get by using their own skills. This pattern also applies to the use of external accountants for management accounting. Overall 20% use an external accountant for management accounting, though this rises to 26% of the youngest companies in the survey (those trading for less than 10 years).

The use of external accountants for pension planning and advice rises with firm size and also age of business (to 23% of those trading for 30 years or more).

External support with VAT administration and bookkeeping is, however, more often used by the smallest and youngest companies in the survey. When companies grow there appears to be a strong tendency to acquire enough internal accounting and financial skills to perform these tasks themselves.

The most commonly mentioned 'other' services for which companies use an external firm of accountants are payroll and auditing. Advice from external accountants is also valued by some firms - often on tax matters, but also on the business generally.

Table 1.5: "For what types of services do you obtain assistance from a firm of accountants?"
- by annual turnover

	Less than £250,000	£250,000- £999,999	£1m- £5.6m	£5.6m- £22.8m	Sample
Preparation of statutory financial accounts	81%	92%	87%	73%	84%
Completion of other tax returns	62%	71%	64%	56%	64%
Management accounting	19%	26%	22%	11%	20%
Pension planning and advice	6%	17%	17%	20%	14%
VAT administration	13%	10%	8%	5%	9%
Bookkeeping	16%	12%	4%	2%	9%
IT	1%	5%	2%	1%	2%
Other	11%	12%	19%	21%	16%
Sample	160	155	180	85	601

Preparation of accounts

Table 1.6 shows that three-quarters of companies with a turnover of between £250,000 and £1m have their annual accounts prepared by an external firm of accountants. This falls sharply to less than a quarter of those with a turnover between £5.6m and £22.8m. These relatively larger firms generally have someone in the company who is an accountant to prepare the annual accounts (64% do so, compared with only 5% of those with a turnover between £250,000 and £1m).

The very smallest companies quite often (12%) have an accountant within the company who prepares the annual accounts. However, even more (18%) make do by having someone within the company who is not an accountant preparing the accounts (for the very smallest companies this is probably often the managing director themselves).

Although relatively few companies use an external bookkeeper, it is worth noting that of those which do, only just over a quarter use that bookkeeper to produce their annual accounts. Over half also use an external accountant to produce the annual accounts.

Table 1.6: "Who prepares your company's annual financial accounts?"
- by annual turnover

	Less than £250,000	£250,000- £999,999	£1m- £5.6m	£5.6m- £22.8m	Sample
An external firm of accountants	64%	75%	62%	24%	59%
Someone in the company who is an accountant	12%	5%	23%	64%	22%
Someone in the company, not an accountant	18%	12%	9%	6%	12%
An external bookkeeper	4%	3%	2%	0%	2%
Other	3%	3%	4%	6%	4%
No response	1%	1%	0%	1%	1%
Sample	160	155	180	85	601

Audits, Companies House and Exemption

A significant minority of small company managing directors admit that they do not know whether their company is eligible for the audit exemption or even what they file at Companies House. More seem to be mistaken about their eligibility and what they file. Some are unclear over whether their accounts are audited at all. The most important reason for voluntarily having accounts audited is because it is useful to banks or other lenders, though many still believe it is useful to the tax authorities.

Audit exemption

Most active, independent small companies qualify for statutory audit exemption - they can file unaudited accounts at Companies House. Although there are exceptions, generally companies submitting accounts ending after March 2004 will be exempt if they have a turnover below £5.6m and a balance sheet total of no more than £2.8m (before this date the turnover limit was £1m).

It seems, however, that this exemption is not well understood by the managing directors of all small companies. Table 2.1 shows that around a quarter of those with an annual turnover of less than £1m admit that they do not know whether their company is eligible for the exemption (or did not answer the question). This is not due to companies leaving the responsibility for these matters with their accountants - the proportion is marginally higher for those companies where someone within the company prepares the company's annual financial accounts.

Some 17% of those companies with a turnover of under £250,000 (and even more of those with a turnover above this but below £1m) believe that they are not eligible for the exemption. Given that few of these firms will have a balance sheet of above £2.8m or fall into any of the other exclusion categories it appears that some of these are in fact mistaken about their company's eligibility.

Managing directors of companies with a turnover above £1m are far less likely to be unsure of their eligibility status, though the proportion of 37% of those with a turnover between £1m and £5.6m which believe themselves ineligible seems high.

Understanding of the audit exemption is clearly not complete even for the largest firms. A few companies with a turnover above £5.6m (the exemption threshold) nevertheless believe that they are eligible for the exemption. One of these commented that their answer was based on advice given by their accountant two years ago.

Table 2.1: "Is your company eligible for exemption from the requirement to have accounts audited?"
- by annual turnover

	Less than £250,000	£250,000- £999,999	£1m- £5.6m	£5.6m- £22.8m	Sample
Yes	58%	54%	56%	2%	47%
No	17%	22%	37%	91%	37%
Don't Know	25%	21%	7%	5%	15%
No response	0%	3%	1%	2%	1%
Sample	160	155	180	85	601

Information filed at Companies House

There is also uncertainty amongst small company managing directors over what information their companies actually file at Companies House.

Table 2.2 shows that over 10% of the managing directors of companies with an annual turnover of less than £1m admit that they do not know what information their company files at Companies House (this proportion is only marginally lower for those where someone in the company prepares the annual financial accounts).

Furthermore, many small company managing directors are mistaken about the form of information filed at Companies House on their behalf. Table 2.2 shows that almost half of those firms with a turnover below £250,000 believe that they file audited accounts (either full or abbreviated). Our survey provides no evidence that this proportion falls sharply for the very smallest companies within this group. These figures do not reconcile with those from Companies House, which indicate that 75% of active companies file only unaudited accounts¹. Checking a small sample of responding companies with the Companies House WebCheck service has found many examples where the managing director reports in this survey that they file audited accounts and yet where Companies House records show that their company has in fact filed unaudited accounts.

It may be thought that managing directors who outsource their accounting needs may be less familiar with what is actually done on their behalf - leaving it to the professionals. However, this survey reveals that the proportion of respondents who believe that they file audited accounts does not differ significantly depending on whether an external firm prepares the company's annual accounts or whether these are done internally.

Nearly all managing directors of companies with a turnover above £1m are confident that they know what their company files at Companies House. Nevertheless, a check of those with a turnover between £1m and £5.6m reveals many who report filing audited accounts and yet which Companies House records as using the audit exemption.

Only a few with a turnover above the audit exemption threshold (£5.6m) believe that they nevertheless file unaudited accounts. One of these is recorded at Companies House as dormant, the other is recorded as filing audited accounts. These few are included in the anomalous few per cent in Table 2.3 which accept that they are not exempt from the requirement to have their accounts audited but nevertheless report that they file unaudited accounts. The remainder have a turnover which suggests that they are in fact exempt.

Table 2.2: "What information do you file at Companies House?"
- by annual turnover

	Less than £250,000	£250,000- £999,999	£1m- £5.6m	£5.6m- £22.8m	Sample
Full audited accounts	15%	20%	34%	81%	33%
Abbreviated audited accounts	32%	41%	44%	14%	35%
Full unaudited accounts	9%	8%	6%	1%	6%
Abbreviated unaudited accounts	34%	19%	14%	2%	19%
Don't know	10%	12%	2%	1%	6%
No response	0%	1%	1%	0%	0%
Sample	160	155	180	85	601

1 Source: Professional Oversight Board for Accountancy, based on Companies House data.

Table 2.3: "What information do you file at Companies House?"
 - by whether company eligible for audit exemption

	Exempt	Not exempt	Sample
Full audited accounts	14%	64%	33%
Abbreviated audited accounts	37%	30%	35%
Full unaudited accounts	11%	2%	6%
Abbreviated unaudited accounts	37%	2%	19%
Don't know	2%	1%	6%
No response	0%	0%	0%
Sample	283	220	601

Table 2.3 suggests that over half of those small firms which say that they are exempt from the requirement to submit audited accounts nevertheless believe that their company chooses to file audited accounts (either full or abbreviated) to Companies House. However, again a check of the records held at Companies House reveals that at least some of these small company managing directors are mistaken, as their accounts filed at Companies House are recorded as being submitted unaudited under the audit exemption.

Audited accounts

Generally, those respondents who believe that their company files audited accounts report that their accounts are audited by a firm of accountants. Table 2.4 shows that 84% of those which are exempt from the audit requirement but believe that they nevertheless

choose to file audited accounts also report that their accounts are audited. This implies that almost half (47%) of those exempt from the audit requirement choose to have their accounts audited. However, given the discrepancies found with the Companies House data this must also be questioned. It may be that these accounts are in fact audited for internal purposes but then the company (or accountant) chooses to submit accounts to Companies House under the exemption, without an auditor's report, and that the respondent does not realise this. However, this seems unlikely as only 8% of those who know that they submit unaudited accounts maintain that they have their internal accounts audited. It seems more likely that many respondents are also mistaken about the audit question and that many accounts are not formally audited at all, even though the respondent believes that they are.

Table 2.4: "Are your annual financial accounts audited by a firm of accountants?"
 - by whether company eligible for audit exemption and whether files audited accounts

	Exempt but still file audited	Exempt, file unaudited	Not exempt	Sample
Yes	84%	8%	94%	68%
No, not now, but in previous years they were	10%	43%	3%	14%
No, not now, but intend to in the future	1%	4%	0%	1%
No, never have been and no immediate intention	6%	45%	2%	15%
No response	0%	0%	1%	1%
Sample	143	134	220	601

Some respondents who report that they submit audited accounts (including some which are not exempt from the audit requirement) nevertheless say that their accounts are not audited by a firm of accountants. This may be due to a range of reasons. Some companies may have certain information audited but also produce separate unaudited internal management information. Others may not view their firm of specialised auditors as 'accountants'.

There is also evidence that some respondents may not have understood the distinction between unaudited and abbreviated accounts. Table 2.5 shows that those companies who report that their accounts are audited by a firm of accountants are split evenly between those which submit full accounts to Companies House and those which submit abbreviated accounts. However, of the 18% who inconsistently report that their accounts are not audited by a firm of accountants but that they file audited accounts at Companies House, almost three-quarters (13% of the total) claim that they file abbreviated audited accounts. It seems likely that at least some of these respondents knew that they had some sort of exemption from Companies House but assumed that what they submit are abbreviated accounts.

Despite these provisos about respondents' understanding of the questions, the data available do confirm that the role of auditors has diminished. Table 2.4 (on the previous page) shows that a significant minority of firms (particularly those which are exempt from the audit requirement and know that they file unaudited accounts) report that their accounts were previously audited by a firm of accountants but no longer are. Hardly any firms which currently do not have their accounts audited intend to have them audited in future. Growing to a size which legally requires an audit is likely to be the only reason which would prompt these currently unaudited firms to engage an auditor.

**Table 2.5: "What information do you file at Companies House?"
- by whether annual financial accounts audited by a firm of accountants**

	Audited	Not audited	Sample
Full audited accounts	45%	5%	33%
Abbreviated audited accounts	45%	13%	35%
Full unaudited accounts	2%	16%	6%
Abbreviated unaudited accounts	2%	58%	19%
Don't know	5%	7%	6%
No response	0%	1%	0%
Sample	411	182	601

Table 2.6: "In your opinion, what are the most important reasons why some small companies eligible for the audit exemption with Companies House decide to continue having their accounts audited?" - by whether exempt and type of accounts submitted to Companies House

	Exempt but still file audited	Exempt, file unaudited	Not exempt	Sample
Considered useful to bank or other lender	57%	47%	70%	56%
Gives management confidence in controls	47%	26%	49%	40%
Considered useful to the tax authorities	41%	19%	36%	32%
Considered useful to creditors	22%	14%	36%	25%
Useful to non-management shareholders	10%	18%	14%	13%
Other	15%	10%	7%	10%
Sample	143	134	220	601

Reasons for audit

It has been seen that some small company managing directors mistakenly believe that their firm files audited accounts with Companies House when in fact they submit unaudited accounts. Nevertheless, it remains the case that some firms do genuinely choose to submit audited accounts even though they are not required to do so.

Respondents to this survey were asked what they think the most important reasons are that some companies continue to have their accounts audited even when they are exempt from the legal requirement. The first column of Table 2.6 shows the explanations from those respondents who meet these criteria - those who are exempt but nevertheless file (or, at least, the respondent believes that they file) audited accounts.

The one reason identified in Companies' House literature² why companies may choose to voluntarily file audited accounts is that "Banks and credit managers rely on information available from Companies House to assess a company's creditworthiness and currently look for the reassurance of an independent audit". Companies in this survey choosing to voluntarily file audited accounts generally agree, as 57% indicate that an important reason to them is that audited accounts are considered useful to a bank or other lender. Nearly

one-quarter (22%) explain that they consider it useful to creditors. Altogether 62% report that they consider audited accounts useful to a bank, other lender or creditors (not 79%, adding the two figures together, as 17% consider it useful to both lenders and creditors).

There are other reasons for voluntarily having accounts audited which are important to significant numbers of small companies. Nearly half (47%) report that they continue to voluntarily have their accounts audited in order to give management confidence in controls. Although the sample sizes are too small to quantify the effect, it is clear, as would be expected, that larger firms, with more complicated management structures, are more likely to consider audited accounts useful to give management confidence.

Almost as many (41%) consider audited accounts useful to the tax authorities. One respondent claimed that audited accounts are "demanded by the Tax office". Although Companies House offers the exemption in order to reduce the burden on business, a significant minority of small company managing directors nevertheless clearly feel for some reason that the tax authorities prefer to see audited accounts. Perhaps some are of the view that they are more likely to be investigated if their accounts are unaudited. It is worth

2 Source: "Guidance: Accounts and Accounting Reference Dates - GBA3", www.companieshouse.gov.uk

noting, however, that this is rarely the only reason given for continuing to have accounts audited. Only 6% cite the tax authorities and no other reasons.

Although only 10% report that they voluntarily file unaudited accounts to give confidence to non-management shareholders, it should be noted that fewer than a quarter of these companies have such external shareholders. Of those which do, 30% cite this as an important reason for having their accounts audited.

A number of companies gave other reasons for continuing to have their accounts audited. The most common was that it was deemed useful for a potential future sale or stock market float of the company. The

next most common reason given was that some clients ask for them, especially government departments and the European Commission. As one respondent noted, it is rather ironic that the government has introduced this exemption (within a framework and limits determined by the European Commission) to reduce the burden on small companies and yet tenders for work for these public bodies often continue to demand audited accounts.

Although they are not speaking from their own experience, it is instructive to also consider the other two columns of Table 2.6, which show the responses from those firms which do take advantage of the audit exemption and also those which are not eligible for the exemption.

Those which themselves file unaudited accounts unsurprisingly come up with fewer reasons why some firms might choose to voluntarily file audited accounts. Many (47%) acknowledge that for other companies they could be useful to a bank or other lender, but far fewer (26%) imagine that they would be considered useful to management - presumably because their own management does not see the need - or to the tax authorities (19%).

Respondents from companies which are not exempt, perhaps representing the conventional wisdom, imagine that the reason of giving confidence to banks and other lenders would be more pre-eminent (70%) than it actually is to those who voluntarily choose to file audited accounts.

A number of firms also identified the reason which appears to be the case for a number of the companies in this survey - that they simply do not realise that they are exempt.

Problems, information and satisfaction

Satisfaction with the accountancy profession seems generally high. Fewer than one in ten believe that accountants could do more to help their business. Only one in five reports experiencing significant problems in relation to accounting and auditing. Larger companies far more often than the smallest have to regularly provide a range of information to external stakeholders such as banks.

Problems encountered

Companies report remarkably few problems in relation to accounting and auditing.

Over three-quarters of companies in this survey report having experienced no significant accounting and auditing problems (Table 3.1). A further 4% did not answer the question, meaning that only one in five companies explicitly reports having problems.

Table 3.1 shows that the proportions experiencing specific problems are fairly evenly split, with no single problem troubling more than 5% of respondents.

The smallest firms are marginally more often complaining of problems with preparing statutory accounts and tax returns. Overall only 1% report problems giving confidence to external stakeholders

(such as non-management shareholders, banks and creditors) in accounting information. This rises to 4% of those which have external shareholders not participating in the management of the business.

In the list of 'other' problems identified by respondents, the cost of accountancy services was mentioned, as was the time taken to prepare accounts and the complexity of complying with requirements, regulations and particularly tax investigations. A number reported difficulties in getting good advice on matters such as tax.

Table 3.1: "In which of the following areas has your business experienced significant problems in relation to accounting and auditing?" - by number of people who work in the business

	1-4	5-19	20-49	50+	Sample
No significant problems	77%	71%	79%	79%	76%
Maintaining accurate records	5%	3%	3%	4%	4%
Management accounting, including budgeting & planning	2%	7%	6%	6%	5%
Giving confidence to external stakeholders	1%	1%	1%	3%	1%
Preparing statutory financial accounts	5%	5%	4%	3%	4%
Preparing tax returns	7%	4%	3%	3%	4%
Other	9%	9%	6%	4%	8%
Sample	169	195	114	117	601

Companies which manage to do their own accountancy work in-house most often (81%) report no problems. Although the samples of companies using non-chartered accountants and external bookkeepers are relatively small, it is notable that these more often report problems than those using chartered accountants.

Those companies using bookkeepers (the 8% of the sample noted in Table 1.3) more often report problems maintaining accurate records and preparing tax returns. Naturally, the use of a bookkeeper may be a reaction to, rather than a cause of, these problems.

Those which use non-chartered accountants most often report problems with the production of statutory financial accounts.

Supplied information

Table 3.2 shows that larger companies far more often than their smaller counterparts regularly have to supply information to external stakeholders such as banks.

Some 60% of firms with a turnover below £250,000 do not regularly supply any information to external stakeholders. This is ten times as many as the 6% of firms with a turnover of over £5.6m which do not need to supply regular information.

In contrast, 62% of these largest firms regularly supply more than one of the listed types of information to external stakeholders.

Table 3.2: "What information do you regularly supply to external stakeholders such as banks?"
- by annual turnover

	Less than £250,000	£250,000- £999,999	£1m- £5.6m	£5.6m- £22.8m	Sample
Annual financial accounts	32%	48%	68%	79%	55%
Management accounts	9%	23%	54%	68%	36%
Plans and budgets	7%	10%	22%	38%	18%
Key operating statistics	1%	7%	11%	9%	8%
None	60%	41%	16%	6%	33%
Other (please specify)	3%	1%	2%	1%	2%
Sample	160	155	180	85	601

Table 3.3: "Does the accountancy profession offer appropriate support to help your business with its accounting and auditing needs?" - by annual turnover

	Less than £250,000	£250,000- £999,999	£1m- £5.6m	£5.6m- £22.8m	Sample
YES	73%	86%	90%	91%	84%
NO, have no need of accountants	9%	2%	2%	2%	4%
NO, accountants could help more	14%	12%	6%	6%	9%
No response	3%	1%	2%	1%	2%
Sample	160	155	180	85	601

Satisfaction

Fewer than one in ten companies believe that accountants could do more to help them (Table 3.4). 84% report that the accountancy profession already offers appropriate support to help their business with its accounting and auditing needs (4% overall have no need for accountants and a few did not answer the question).

Consistent with findings elsewhere in this survey, the very smallest firms are most likely to have no need of accountants (9%).

Satisfaction with the accountancy profession is over 90% for those with a turnover of over £1m. Those with a turnover below this level are more than twice as likely to believe that the accountancy profession could do more. The very smallest and youngest most often think they could do more (14% of those with a turnover below £250,000 and 16% of those trading for less than ten years).

Survey details

This survey and report were funded and supported by the Professional Oversight Board for Accountancy (POBA - www.frc.org.uk/poba). However, the Small Enterprise Research Team is wholly responsible for the interpretation of data and views expressed in the report.

POBA, a part of the Financial Reporting Council (FRC), contributes to the achievement of the Financial Reporting Council's own fundamental aim of promoting confidence in corporate reporting and governance. This survey was commissioned to inform a review of the accounting and auditing needs of small and medium-sized companies and their stakeholders. POBA intends to publish the findings of this review in early 2006.

Questionnaires for this survey were completed between 22nd July 2005 and 15th September 2005. All responses included in the analysis are from limited companies.

The sample was composed from a number of different sources.

Two-thirds of the respondents are companies which are members of the SERTeam survey database, who regularly contribute to our long-running survey, the NatWest/SERTeam Quarterly Survey of Small Business in Britain. These firms are themselves drawn from a wide range of sources. They reflect the complexity and richness of business life in Britain today. **Additions to the sample from individual small businesses and from business organizations are always welcome.** It should be noted that the SERTeam database is not a

panel, nor is it fully random. It continuously recruits new members to reflect the national distribution of small firms; yet it also retains long time respondents to gauge changes over time. Half of these firms completed the survey on-line, the remainder by post.

The SERTeam database is focused on small businesses (almost three-quarters have a turnover below £1m). For this survey the sample was supplemented by relatively larger firms from a number of other sources.

17% of the sample were postal responses from companies with a turnover between £5m and £22m chosen at random from the FAME database. The remainder were split fairly evenly between three further sources. Around 6% of the sample were firms contacted by email by the Data Bureau, a permission-based B2B list management company. 4% followed a link from the industry's AccountingWeb web-site. The final 5% came via accountancy firms, who were asked to forward a link to the questionnaire to their clients.

The section which follows analyses the characteristics of the samples. The mix of different sample sources should be borne in mind when analysing the survey responses. However, no obvious biases have been observed in the report.

Survey Details

Sample characteristics

This survey covers companies from the very smallest to the top of the medium-sized segment. Compared with the distribution of all companies this survey (as with all others) under-represents the very smallest. Otherwise these would dominate the results and there would be hardly any medium-sized companies in the sample (official figures show that 85% of all companies have fewer than 10 employees).

Tables A.1 and A.2 (overleaf) show that nearly all of the companies taking part in the survey have fewer than 500 employees and a turnover below £22.8m (the upper limit of the definition of medium-sized companies).

The respondents from the regular SERTeam database are nearly all small companies. Most have fewer than 50 employees and a turnover of less than £5.6m. Half have fewer than six employees and half a turnover of less than half a million pounds.

The respondents gathered by DataBureau (relatively few, 6% of the total) are on average a little larger (median of 17 employees, 65% with a turnover of £1m or more).

The companies recruited from the FAME database were targeted to be larger and mostly have between 20 and 499 employees (90%) and a turnover between £3m and £22.8m (89%).

The 5% of respondents which were recruited by their accountancy firms are on average a similar size to the FAME respondents, but the variance is greater, with some smaller and some larger firms.

The 4% of companies which followed a link from the industry web-site, AccountingWeb, cover a wide range of sizes though mostly (78%) with a turnover over £1m and include some of the largest firms taking part in the survey.

Table A.1: "How many people (including yourself) work in the business?"
- by source of respondents

	Regular (email)	Regular (post)	DataBureau	FAME	Via Accountants	Accounting Web	Sample
1	6%	6%	0%	0%	0%	0%	4%
2	19%	12%	12%	0%	3%	4%	11%
3-4	16%	18%	12%	1%	3%	15%	13%
5-9	19%	28%	15%	2%	13%	11%	18%
10-19	19%	17%	18%	4%	3%	11%	14%
20-49	18%	14%	29%	25%	19%	26%	19%
50-99	3%	3%	3%	37%	31%	7%	11%
100-499	1%	1%	9%	28%	25%	15%	8%
500+	0%	0%	3%	0%	3%	11%	1%
No response	1%	0%	0%	4%	0%	0%	1%
Sample	199	202	34	105	32	27	601

Table A.2: "Please indicate your firm's annual turnover (excluding VAT):"
- by source of respondents

	Regular (email)	Regular (post)	DataBureau	FAME	Via Accountants	Accounting Web	Sample
Less than £50,000	7%	5%	6%	0%	0%	4%	5%
£50,000 - £99,999	13%	14%	3%	0%	0%	4%	9%
£100,000 - £249,999	16%	19%	6%	1%	3%	7%	13%
£250,000 - £499,999	16%	19%	12%	1%	3%	4%	13%
£500,000 - £999,999	18%	17%	9%	0%	6%	4%	13%
£1.0m - £3.0m	25%	16%	44%	8%	16%	30%	20%
£3.0m - £5.6m	3%	4%	3%	35%	19%	11%	10%
£5.6m - £10.0m	1%	0%	6%	16%	16%	0%	4%
£10.0m - £22.8m	0%	2%	9%	37%	19%	19%	10%
over £22.8m	0%	0%	3%	1%	19%	19%	2%
No response	2%	1%	0%	1%	0%	0%	1%
Sample	199	202	34	105	32	27	601

Table A.3: "Please classify your business activity by circling one of these categories:"
- by turnover

	Less than £250,000	£250,000- £999,999	£1m- £5.6m	£5.6m- £22.8m	Sample
Agriculture, Forestry, Fisheries	2%	3%	3%	2%	3%
Manufacturing, (incl. Publishing/Printing)	13%	26%	33%	27%	24%
Transport, Travel, Storage, Communication	3%	6%	7%	11%	6%
Construction	11%	12%	17%	22%	15%
Wholesale	3%	10%	10%	9%	8%
Retail, Repair household goods	9%	10%	4%	7%	7%
Hotels & Restaurants	4%	3%	2%	0%	2%
Business Services/Real Estate/Finance/Renting	46%	17%	16%	13%	24%
Health/Education/Leisure/Personal Services	6%	6%	6%	4%	5%
No response	4%	6%	4%	5%	5%
Sample	160	155	180	85	601

Table A.3 shows that the most common types of companies taking part are manufacturers and business service firms, each 24% of the sample. Analysis of VAT-registered companies indicates that in the economy as a whole there are many more business service companies than manufacturers. The under-representation of business services relative to manufacturers in our survey is at least largely due to the fact that it has been necessary to under-represent the smallest companies in order to include the views of their relatively larger counterparts. Table A.3 shows that far more of the very smallest companies are engaged in business services.

The (relatively few) respondents recruited by the DataBureau are dominated by manufacturers (47%). Although being on average relatively large, those which use AccountingWeb are most often business service firms (37%), though only a few appear to be accountants themselves.

Half of the companies taking part in the survey have been trading for less than 17 years. Table A.4 shows that the larger companies are generally the oldest.

More of the companies from the regular SERTeam database (38%) and those from AccountingWeb (33%) were established within the past ten years than were those from the other sources (14%).

Table A.4: "How many years has your present business been trading?"
- by turnover

	Less than £250,000	£250,000- £999,999	£1m- £5.6m	£5.6m- £22.8m	Sample
1-4 years	14%	7%	4%	5%	8%
5-9	33%	27%	18%	7%	23%
10-19	26%	26%	27%	21%	25%
20-49	21%	35%	41%	45%	34%
50+	4%	5%	8%	22%	9%
No response	2%	0%	1%	0%	1%
Sample	160	155	180	85	601

Table A.5: "Does your company have external shareholders not participating in management of the business?" - by turnover

	Less than £250,000	£250,000- £999,999	£1m- £5.6m	£5.6m- £22.8m	Sample
Yes	14%	16%	25%	34%	21%
No	86%	84%	75%	66%	79%
No response	0%	0%	0%	0%	0%
Sample	160	155	180	85	601

Just over one in five (21%) of companies have external shareholders not participating in the management of the business. Table A.5 shows that this rises with size of business, to just over one-third of those with a turnover above £5.6m.

Only 5% of companies taking part in the survey are subsidiaries (Table A.6). This also rises with firm size, though only to 9% of those with a turnover of £5.6m and above. However, Table A.6 shows that 22% of those which responded via AccountingWeb are more than 50% owned by another firm.

Table A.6: "Is your company a subsidiary (more than 50% owned) of another firm?" - by source of respondents

	Regular (email)	Regular (post)	DataBureau	FAME	Via Accountants	Accounting Web	Sample
Yes	3%	2%	12%	6%	9%	22%	5%
No	96%	97%	88%	94%	91%	78%	95%
No response	1%	0%	0%	0%	0%	0%	0%
Sample	199	202	34	105	32	27	601

SERTeam/Professional Oversight Board For Accountancy

Small Enterprise Research Team, Open University Business School, Michael Young Building, Walton Hall, Milton Keynes, MK7 6AA

Please circle the appropriate numbers or fill in the blanks. Your answers will remain confidential.

CONFIDENTIAL

- 1 Is your firm a limited company? (If not, please return questionnaire now to save us bothering you further) 1. YES 2. NO
- 2 How many people (including yourself) work in the business? _____
- 3 Does your company have external shareholders not participating in management of the business? 1. YES 2. NO
- 4 Is your company a subsidiary (more than 50% owned) of another firm? 1. YES 2. NO
- 5 How many years has your present business been trading? _____
- 6a Please classify your business activity by circling one of these categories:
- | | | |
|--|-----------------------------------|--|
| 1. Agriculture, Forestry, Fisheries | 4. Construction | 7. Hotels & Restaurants |
| 2. Manufacturing (incl. Publishing/Printing) | 5. Wholesale | 8. Business Services/Real Estate/Finance/Renting |
| 3. Transport, Travel, Storage, Communication | 6. Retail, Repair household goods | 9. Health/Education/Leisure/Personal Services |
- 6b Please also describe in a few words the precise nature of your business: _____
- 7 Please indicate your firm's annual turnover (excluding VAT):
- | | | | |
|----------------------|----------------------|------------------|-----------------|
| 1. Less than £50,000 | 4. £250,000-£499,999 | 7. £3.0m-£5.6m | 10. over £22.8m |
| 2. £50,000-£99,999 | 5. £500,000-£999,999 | 8. £5.6m-£10.0m | |
| 3. £100,000-£249,999 | 6. £1.0m-£3.0m | 9. £10.0m-£22.8m | |
- 8 Does your business have any of the following? (Circle all those which apply)
- | | |
|---|----------------------------------|
| 1. Directors or staff members who are qualified accountants | 3. An audit committee |
| 2. Non-executive directors with accountancy skills | 4. No internal accountancy staff |
- 9 Which of the following types of external support do you use to help with accountancy work? (Circle all those which apply)
- | | | |
|----------------------------------|------------------------------|--|
| 1. All done in house | 3. Other firm of accountants | 5. Other type of external support (Please specify) |
| 2. Firm of chartered accountants | 4. External bookkeeper | _____ |
- 10 Has the amount you use external accountants changed in the past five years?
- | | | |
|--|--|--------------------------|
| 1. Increased use of firm of external accountants | 2. Reduced use of firm of external accountants | 3. No significant change |
|--|--|--------------------------|
- 11 If you have changed between external accountancy firms in the past five years, please specify why:
- _____
- 12 For what types of services do you obtain assistance from a firm of accountants? (Circle all those which apply)
- | | | |
|--------------------------|--|--------------------------------|
| 1. Bookkeeping | 4. Completion of other tax returns | 7. Pension planning and advice |
| 2. Management accounting | 5. Preparation of statutory financial accounts | 8. Other (Please specify) |
| 3. VAT administration | 6. IT | _____ |
- 13 Who prepares your company's annual financial accounts?
- | | | |
|--|------------------------------------|---------------------------|
| 1. Someone in the company who is an accountant | 3. An external firm of accountants | 5. Other (Please specify) |
| 2. Someone in the company, not an accountant | 4. An external bookkeeper | _____ |
- 14 Are your annual financial accounts audited by a firm of accountants?
- | | |
|---|---|
| 1. Yes | 3. No, not now, but intend to in the future |
| 2. No, not now, but in previous years they were | 4. No, never have been and no immediate intention |
- 15 What information do you file at Companies House?
- | | | |
|---------------------------------|-----------------------------------|---------------|
| 1. Full audited accounts | 3. Full unaudited accounts | 5. Don't know |
| 2. Abbreviated audited accounts | 4. Abbreviated unaudited accounts | |
- 16 Is your company eligible for exemption from the requirement to have accounts audited? 1. YES 2. NO 3. Don't Know
- 17 In your opinion, what are the most important reasons why some small companies eligible for the audit exemption with Companies House decide to continue having their accounts audited? (Circle all those you believe important)
- | | | |
|--|--|--|
| 1. Considered useful to bank or other lender | 3. Considered useful to creditors | 5. Useful to non-management shareholders |
| 2. Considered useful to the tax authorities | 4. Gives management confidence in controls | 6. Other (Please specify) |
- _____
- 18 In which of the following areas has your business experienced significant problems in relation to accounting and auditing?
- | | |
|--|---|
| 1. No significant problems | 5. Preparing statutory financial accounts |
| 2. Maintaining accurate records | 6. Preparing tax returns |
| 3. Management accounting, including budgeting and planning | 7. Other (Please specify) |
| 4. Giving confidence to external stakeholders (such as non-management shareholders, banks and creditors) in accounting information | _____ |
- 19 What information do you regularly supply to external stakeholders such as banks? (Circle all those you supply)
- | | | |
|------------------------|------------------------------|-----------------------------|
| 1. None | 3. Plans and budgets | 5. Key operating statistics |
| 2. Management accounts | 4. Annual financial accounts | 6. Other (Please specify) |
- _____
- 20 Does the accountancy profession offer appropriate support to help your business with its accounting and auditing needs?
- | | | |
|--------|------------------------------------|------------------------------------|
| 1. YES | 2. NO, have no need of accountants | 3. NO, accountants could help more |
|--------|------------------------------------|------------------------------------|

Please indicate on the reverse of this questionnaire any ways or through what types of services the accountancy profession could support your needs more appropriately (or add any other comments you have on the issues raised)

Thank you for completing this confidential survey questionnaire.

Please return it in the envelope provided.

Please note that this is a FREEPOST address (no stamp required).