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Submitted by email to: [transparencyandtrust@beis.gov.uk](mailto:transparencyandtrust@beis.gov.uk)

19 January 2021

Dear Sir or Madam

**Corporate Transparency and Register Reform Consultation**

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Thank you for the opportunity to comment on the above issue provided by your consultation document dated 9 December 2020<sup>2</sup>.

## Background information

The Corporate Accountability Network (CAN) is a not-for-profit company<sup>3</sup>. Created in 2019, the CAN promotes the idea that accountancy was created with a public purpose and that it should still fulfil that public purpose. It is our belief that accountancy cannot do that unless it fulfils its obligation to account to all the stakeholders of a company, whether they be the suppliers of its capital; its trading partners; its employees; regulators; tax authorities or civil society, who are everyone it impacts whether or not it has a contract with them. As a result one of the issues that CAN promotes is the idea that the accounts of all companies should be available, in full and free to access, on public record. As we note on our website<sup>4</sup>:

*The Corporate Accountability Network wants all companies, whatever their size, to publish their accounts in full and on public record with no cost being made to anyone seeking a copy. There are three reasons for doing so.*

*Firstly, the limited liability shareholders enjoy means that they do not have to settle the debts of their companies if those companies go bankrupt. Society picks up the cost instead. That means shareholders are granted an extraordinary privilege by society. That privilege creates an obligation to account for its responsible use. And that means the full accounts of all companies must be available on public record. Whatever is required for a shareholder to appraise the risk arising from investing in a company is the minimum that anyone else needs to appraise the risk that they might face from engaging with it.*

*Secondly, because no one knows which companies will, and will not, create risk for society at large it follows that all companies must account in full and on public record in case they are the one that does so.*

*Third, unfortunate experience suggests that the secrecy that not requiring full accounts on public record creates can provide cover for fraud of many sorts. To eliminate this risk for the benefit of all honest companies as well as society at large all companies must be required to put their accounts on public record.*

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[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/942160/Consultation\\_on\\_improving\\_the\\_quality\\_and\\_value\\_of\\_financial\\_information\\_on\\_the\\_register.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/942160/Consultation_on_improving_the_quality_and_value_of_financial_information_on_the_register.pdf)

<sup>3</sup> <http://www.corporateaccountabilitynet.work/who-we-are/the-company/>

<sup>4</sup> <http://www.corporateaccountabilitynet.work/what-we-are-about/why-companies-should-report/>

CAN is directed by Richard Murphy<sup>5</sup>. Richard is a UK chartered accountant with forty years' experience in practice (where he continues to work, albeit very part time), industry, and within civil society. More recently he has been working mainly as an academic. He is currently Visiting Professor of Accounting at Sheffield University Management School, Visiting Professor of Practice in International Political Economy, City University, London and a Visiting Professor at Anglia Ruskin University Global Sustainability Institute. He is also director of Tax Research LLP.

### Summary of submission

The approach adopted in your consultation document is very welcome. It is encouraging to see that comments submitted to the previous consultation have been noted and acted upon. We warmly endorse the overall direction of travel implicit in the current consultation document.

In particular, we are pleased to note that BEIS is embracing the idea of significantly improving the level of corporate transparency in the UK by suggesting that companies might be required to place either their full statutory accounts prepared for their shareholders on public record, or that a significantly enhanced level of disclosure over that in use at present in most cases, which would always require inclusion of an income statement, might alternatively be required instead.

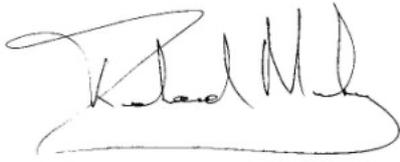
In our opinion, the first of these options is always preferable. It is a legal requirement that a company prepare accounts that show a true and fair view of its affairs, and since there can only ever be one such true and fair view, filing anything less than the full accounts which are intended to represent that view cannot be appropriate, in our opinion. It is our opinion that the stakeholders of a limited liability entity have as much right to information about the affairs of a company trading in the UK as its shareholders do because those stakeholders suffer the potential moral hazard that every limited liability entity creates, from which the shareholders of the company are protected.

None of the issues noted in your consultation are, in our opinion, as important as this, overriding one. However, we provide elaboration of this opinion and answer the other questions you have raised in the detailed answers to your requests for comment that we attach to this letter. We shall be pleased to provide further evidence and elaboration if it is of benefit to you.

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<sup>5</sup> <https://www.taxresearch.org.uk/Blog/richard-murphy/>

Yours faithfully

A handwritten signature in black ink, appearing to read 'Richard Murphy', with a large, sweeping underline that extends across the width of the signature.

Prof Richard Murphy

Director

Corporate Accountability Network

## Consultation questions

### Section 1: Towards file once with government

#### Q1: What features of the Companies House and HMRC filing regimes should be kept under a harmonised filing process?

We support measures that integrate corporate reporting and taxation because we see the two as intimately related activities. There are, however, weaknesses in both filing systems at present. In particular:

- a. Penalties within both systems do it present provide a perverse incentive to not file because of the scale of financial penalty incurred by doing so after only relatively short lapses of time, particularly in the case of smaller companies. Whilst penalties are always appropriate it is important that they do not undermine the integrity of the system that they are meant to reinforce, as they do it present. A complete review of the penalties regime is required whether or not integration between the Companies House and HMRC systems is to be delivered;
- b. Penalties in the Companies House filing system kind appear particularly harsh, especially in the case of smaller companies. They should be reviewed as a consequence, and be geared to the scale of corporate activity, meaning that they should probably be based upon turnover, with de minimis limits applying;
- c. HMRC usually requires accounting data that is never intended for public record e.g. detailed profit and loss accounts. It must be ensured that strict segregation of such data is available within any online filing system to ensure that information not required to be published is not inadvertently placed upon the public record. This is particularly important because some information that might be required to support a corporation tax return might disclose personally sensitive information;
- d. The arrangements for making reasonable excuse are relatively insensitive at present with regard to both these filing systems. A more sensitive approach would considerably assist the likelihood of compliance in many cases.
- e. Procedures for enforcing penalties once imposed are weak in both cases, and this is particularly of concern when breaches of regulations are persistent or deliberate. Arrangements to improve enforcement when it is clear that there is deliberate intention to not comply with the requirements of law should be enhanced, with additional resource supplied to both agencies to achieve this goal and the possibility of breaching limited liability being considered so that directors might be

made responsible for the consequences of their actions. These cases must be differentiated from accidental non-compliance for the sake of the integrity of the system.

**Q2: What information (if any) in annual accounts should not be made public?**

In our opinion there is no information currently made available in the annual accounts of any limited liability entity that should not also be made available on public record. Our concern is, instead, that too little information is made available in many cases.

For example, we would note the considerable reduction in tax disclosure enabled by the requirements of FRS 102 as relating to smaller entities and the removal of the requirement to account for deferred taxation by those same entities included in that same standard.

In broader terms, the desire to reduce these supposed burdens on business arising from financial reporting has gone too far. Directors do not now have the information that they might need to manage their companies, or the critical relationships that they do actually have with their stakeholders. Examples of additional disclosures that would help include:

- Disclosure of average employee numbers, split by gender;
- Disclosure of total employee remuneration, again split by gender;
- Disclosure of average creditor days as indication of good governance with regard to payment management;
- A cash flow statement or statement of source and application of funds (see Question 8 for elaboration);
- Disclosure of intra-group trading as if between related parties to indicate intra-group dependency for both profitability and solvency.

**Q3: What benefits do you envisage for filing once across government?**

Administrative ease and the modest saving that might arise from unification of procedures and from the risk of meeting multiple deadlines are the benefits that might arise from this process. However, we would warn against overstating these benefits. Most proprietary software now integrates corporate accounting and corporation tax return preparation and as a result the potential savings from single filing are quite limited in terms of cost saving and might actually be negligible in most cases.

**Q4: What challenges do you envisage for filing once across government?**

None.

**Section 2: Requiring financial information to be delivered in a digital format**

**Q5: In your view, why do some companies continue to file on paper?**

Some companies will still file data in paper format for the quite deliberate reason of hindering the use of their information, but we expect that this is a tiny minority of the companies filing in this way.

It is more likely that in many cases paper filing is required by professional advisers who wish their clients to physically sign documents to indicate their acceptance of responsibility for them on public record. We think that there is a valid basis for this concern. The presence of a physical signature was once considered to be an essential test by Companies House. There is no equivalent in the digital era of proof that the directors of a company have really accepted responsibility for the accounts that they have filed. Some professional advisers believe that they limit their own risk by imposing this requirement.

These points being noted, we do, however, suggest that the most significant reason for accounts being filed on paper is that most accounts production software, including that made available by Companies House, is insufficiently flexible to meet the reporting needs of the companies in question. We suggest that this is why it is still so commonplace to see the paper reports of major corporations filed at Companies House.

The logic implicit within most accounts production software is that every company will seek to deliver the minimum corporate disclosure possible with regard to its affairs in a period. It is an unfortunate fact that many professional advisers encourage this attitude. It is not one that we share. It is our belief that the granting of limited liability is a privilege given by society for which account must be made. This requires that the company prepare its accounts over and above a minimum required common level to provide all that information that its stakeholders who might engage with it might require to ensure that they are comfortable with the relationship that they have with that entity. At an absolute minimum this means that we should ask companies to disclose more information with regard to their tax affairs than is required by FRS 102, for example. It is our experience that many accountants find it quite difficult to accommodate this request from their clients because their accounting software does not provide the necessary flexibility to enable them to do so.

To comply with this request many accountants are forced to produce these financial statements outside their normal accounting software. To achieve this they usually have to export the basic information produced by such software to a third party system such as Microsoft Word, in which they can then add the desired elaborations to complete the financial statements. Once this has happened it then becomes easier to submit the resulting financial statements on paper rather than electronically.

In that case we stress the importance of ensuring that sufficient flexibility to permit disclosure giving a true and fair view be made available within both Companies House's own financial statements' software and that from all licenced accounts production software providers if sufficient accounting flexibility to provide reporting that meet a company's needs and the obligation to file electronically is to be met in future. Unless this is done the standard of corporate accounting will fall considerably as a consequence of removing the option to file on paper. We presume that this is not the government's objective and that this issue must, as a consequence, be addressed.

**Q6: What challenges will mandatory digital filing present?**

We have addressed this issue in our answer to question 5.

**Q7: What can government do to assist these companies to transition to digital filing?**

As noted in our answer to question 5, it is vital that the company require that accounts production software made available by Companies House and that licenced for use with Companies House must incorporate sufficient flexibility to permit any company to file information in excess of that required as a statutory minimum, or as a minimum by the financial reporting standards with which they are required to comply.

**Section 3: Full iXBRL tagging of financial information**

**Q8: What challenges do you foresee with filing fully tagged accounts with Companies House?**

As noted in our answer to question 5, we do not think that UK corporate reporting should be reduced to its lowest common denominator, or that either statute or financial reporting standards should define the limits of disclosure required when the reality is that the requirement to deliver financial statements reflecting a true and fair view of the affairs of the reporting entity might, in very many cases, require that additional information be disclosed either necessarily, or voluntarily, to meet the needs of stakeholders. The challenge that will then arise is in differentiating this additional information from that de minimis data that is required to populate a Companies House database used for corporate comparison purposes.

We should emphasis when saying this that we do, already, have many concerns with current UK financial reporting standards, as well as with International Financial Reporting Standards, which do not at present embrace country-by-country reporting, which we think they should.

Your own consultation document has revealed significant concern with regard to the extent of information currently disclosed by many UK limited liability entities. It also notes the fact that many companies produce information over, above and beyond the abbreviated data

that they might choose to file with Companies House, and that this does not accord with the spirit of the law on such issues. What this evidence does provide is clear indication that the current disclosure required by financial reporting standards is insufficient to meet stakeholder needs. In that case whilst we welcome iXBRL tagging of financial information we suggest that it is very important that BEIS does first of all review what is the required minimum content of accounts for UK limited liability entities.

In this context we note that you say in your consultation document that the stakeholders for this data include 'businesses, financial institutions, civil society groups, academics, journalists and the public at large' (Para 9). We also note that you say that 'Improving the quality and integrity of the information will bring widespread benefits.' (Para 9). We agree.

We also note that FRS 102 says that:

*General purpose financial statements are intended to focus on the common information needs of a wide range of users: shareholders, lenders, other creditors, employees and members of the public, for example.'* (Para v)<sup>6</sup>.

We would also suggest that the list should include regulators and all tax authorities that might have reason to engage with the company, or with the UK more generally when seeking to secure data on how the UK tax system works in practice. We might also elaborate the term 'public' to explicitly include local authorities as well as concerned individuals. We would rather hope you agree.

There is, however, in that case a fundamental problem in assuming that FRS 102 meets this stated goal. As the Financial Reporting Council (FRC) notes in its overview of the UK financial reporting framework<sup>7</sup> there is a hierarchy within that framework that inexorably develops, in their explanation, from the micro-entity regime, to the small entity regime within FRS 102, to FRS 102 itself, and then on to International Financial Reporting Standards (IFRS). However, that is not the progression that exists in practice. What actually exists was created in the reverse order to that implied by the FRC. In reality FRS 102 was derived from, and is a subset of, IFRS, and the smaller-entities regime is then a subset of that, and so on, with requirements being relaxed or eliminated at each stage of the process. Even the micro-entities disclosure requirements regime has its roots in IFRS in that case.

This then results in a currently irresolvable conflict within the UK financial reporting system. The FRC might see that financial statements prepared using its standards are intended to

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<sup>6</sup> <https://www.frc.org.uk/document-library/accounting-and-reporting-policy/2018/frs-102-frs-applicable-in-the-uk-and-republic-of-i>

<sup>7</sup> <https://www.frc.org.uk/document-library/accounting-and-reporting/2015/overview-of-the-financial-reporting-framework>

meet the needs of all users of accounts (or general-purpose financial statements as they wish to call them) but the IFRS explicitly deny that. In their Conceptual Framework<sup>8</sup> the IFRS Foundation says this:

*1.2 The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity. Those decisions involve decisions about:*

*(a) buying, selling or holding equity and debt instruments;*

*(b) providing or settling loans and other forms of credit; or*

*(c) exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources.*

*1.3 The decisions described in paragraph 1.2 depend on the returns that existing and potential investors, lenders and other creditors expect, for example, dividends, principal and interest payments or market price increases. Investors', lenders' and other creditors' expectations about returns depend on their assessment of the amount, timing and uncertainty of (the prospects for) future net cash inflows to the entity and on their assessment of management's stewardship of the entity's economic resources. Existing and potential investors, lenders and other creditors need information to help them make those assessments.*

They then add:

*1.5 Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial reports are directed.*

*1.6 However, general purpose financial reports do not and cannot provide all of the information that existing and potential investors, lenders and other creditors need. Those users need to consider pertinent information from other sources, for example, general economic conditions and expectations, political events and political climate, and industry and company outlooks.*

If FRS 102 is derived from IFRS, as it undoubtedly is, it is not possible for the FRC to claim that it meets the needs of the stakeholders of financial statements, as it suggests that it

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<sup>8</sup> <https://www.ifrs.org/issued-standards/list-of-standards/conceptual-framework/>

does, when, as a matter of fact, the IFRS Foundation says that the financial statements that it produces are not intended to do so. Nothing has been added by the FRC to achieve that goal: instead it is fair to say that only extraction has taken place. That makes the achievement of this goal in FRS 102 even more unlikely than it is in IFRS, which now requires modification for this reason for UK use now EU standards no longer apply in this country.

Examples of items that are omitted from FRS 102 that should be included if the standard is to meet the needs of users of accounts prepared in accordance with its prescriptions include:

- Country-by-country reporting;
- A reconciliation of the current tax charge of a company for each year, for each jurisdiction in which it operates;
- A further reconciliation of that current tax charge to the overall tax charge of the company for the year in question including deferred taxation;
- A cash flow statement including identification of corporation tax paid in each year, or, in the case of smaller entities, a statement of source and application of funds which would in their case approximate to a cash flow statement but be easier to prepare and provide equivalent information for the benefit of all stakeholders, including the management of the entity itself;
- A statement of the directors' remuneration for all companies, and disclosure of the sum paid to the highest paid director, without exception;
- Disclosure of the average number of employees during the course of a period, split by gender;
- Disclosure of the aggregate remuneration during a period (separating social security contributions and pension contributions), split by gender;
- A statement on the average number of days taken to settle third party creditor liabilities;
- A statement on the aggregate value added tax, PAYE taxation, council tax liabilities and other material taxes paid due by period, with disclosure in the cash flow statement of the sums paid and in the balance sheet the aggregate liabilities owing, each on a country-by-country reporting if appropriate;
- For medium and large entities, a statement of the estimated carbon footprint of the company in the year and the of the plans that the directors have to eliminate it<sup>9</sup>.

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<sup>9</sup> We would refer you to our work on sustainable cost accounting <http://www.corporateaccountabilitynet.work/wp-content/uploads/2019/12/SCANov2019.pdf>

There are clearly other issues that might be discussed: we have focussed on that that we know to be of particular concern. Our focus is heavily influenced by our discussions with the following groups:

- local authorities seeking to pursue ethical procurement;
- pension funds wishing to allocate capital ethically;
- sustainability campaigners;
- international trade justice campaigners;
- tax justice campaigners;
- business owners;
- researchers.

We suggest that these issues need to be resolved before the issues concerning i-XBRL tagging are addressed.

**Q9: As a user of financial information on the register, what information in a company's accounts is critical for you and should be checked (validated) to ensure it is tagged correctly?**

It is our belief that the core data required for disclosure in each of the core statements required by FRS 102 and its derivative documents, including that usually consigned to notes (e.g. those items analysed in notes described as charges in the income statement; the break down of financial income and expenditure; analysis of the tax charge; dividend distributions; tangible and intangible assets; current assets and liabilities; deferred liabilities and movements on equity, including on key reserves and on share, share premium and related reserve accounts) should be tagged for i-XBRL purposes.

#### **Section 4: Reducing the timescales for delivering financial information**

**Q10: With continual advancements in digital technology, what are your views on shortening the time allowed to submit accounts to Companies House?**

Digital technology is not the primary issue of concern in the preparation of the annual financial statements of any limited liability entity. The constraining factor is always the availability of a relevant human resources. The secondary, but quite significant consideration is the time that it takes to form an appropriate judgement upon the financial statements of a reporting entity.

Whilst we are aware that many public companies do report within three months of their financial year end, the evidence of persistent audit failure suggests that this might be inappropriate and that more time might be a benefit in these cases.

In contrast, we accept that in the case of smaller entities timeliness could be of advantage. Overall, it is our belief that a time limit of five months for larger companies, and of eight months for medium size and smaller entities would be appropriate.

**Q11: What would be the impact if filing deadlines were shortened to three months for public and six months for private companies from the end of the reporting year?**

For reasons noted in the answer to question 10 we think that the relevant time limits should be five months for public companies and eight months for private companies.

**Q12: What measures could the government implement to ease the transition to shorter filing deadlines?**

By far the most useful measure that the government could take to encourage the reduction in filing deadlines would be to provide software for financial statement preparation that integrated with accounting packages produced for routine transaction recording developed by third party suppliers.

That government produced accounts production package should provide guaranteed built in iXBRL coding, plus the flexibility to ensure that full additional disclosure over and above that required as a basic minimum either by law or accounting standards is possible to ensure that a true and fair view is delivered, whilst statutory compliance is secured.

If the government wishes to secure guaranteed database compliance then the most useful way to do so is to create the delivery mechanism to ensure that this goal is achieved, and only by taking responsibility for this part of the account's production process can it do that. The cost should be met by an increase in the annual Companies House registration fee which should be charged at varying rates depending upon the size of a company.

## **Section 5: Maximising the value and integrity of accounts information**

**Q13: What will be the challenges for companies submitting a declaration of filing eligibility with accounts?**

We cannot imagine a situation where such challenges might arise because in our opinion data on all criteria used should be included in any limited liability entities' financial statements filed with Companies House.

**Q14: Under what circumstances, if any, should the eligibility information collected with the declaration not be published on the public register?**

For the reasons noted in our answer to Question 13, we do not think that there any circumstances where the eligibility information collected with the declaration should not be published on the public register.

**Q15: What other information should Companies House collect that would be useful for:**

- **Combating economic crime;**
- **Increasing the value of the information available on the register?**

We have five suggestions to make.

Firstly, we suggest that the person filing the financial statements of a company should only be able to do so through a personal UK government gateway account. This would necessarily mean that proof of identity for the person making the submission will have been required in advance of any declaration being made.

Second, we suggest that only a government gateway account for a director of the company should be considered acceptable for the purposes of filing the financial statements of a company. Third party filing should not be possible, in other words. Directors should be seen to fulfil their duties.

Third, we suggest that any person who is not UK tax resident should not be permitted to file the accounts of a company with Companies House.

Fourth, the submission process should be modified to check that such residence has been evidenced. We accept at this might necessarily restrict access to UK limited companies by those not resident in the UK, or will require them to appoint a UK person as a director of the company if they wish for such access. Such demands are not without precedent though; this is, for example, a requirement in the Isle of Man.

Fifth, the person whose government gateway account has been used to file the financial statements should have primary, albeit joint and several, liability for any penalties arising from a false declaration made with regard to those financial statements.

We think these requirements acceptable, most especially if the filing of financial statements is to be linked to the filing of corporation tax returns.

**Q16: As the directors' declaration will need to include information in respect of turnover, balance sheet total and number of employees, what changes, if any, would you make to these definitions in Part 15 of the Companies Act to make the definitions clearer?**

None: these definitions are adequate as they stand.

**Q17: What would be an appropriate sanction for making a false declaration of eligibility?**

We suggest that the penalty for making a false filing declaration should be the personal liability of the person making it, but that if they do not pay it should be the joint and several liability of their co-directors.

We suggest that the penalty relate to the true turnover of the company with regard to which false declaration is made, but that if that cannot be determined then the maximum penalty for a small enterprise would be payable.

We suggest that the minimum penalty should be £500. The maximum should be 0.1% of the true turnover of the entity for which false declaration was made, with the option of increasing that penalty tenfold if criminal intent can be proven.

### **Section 6: Review of small company accounts filing options**

#### **Q18: What is the minimum level of financial information that a micro-company should disclose on the public register?**

It is our suggestion that the micro-company reporting regime be removed from use and that all companies that now use that scheme should be required to use the FRS 102 small entities scheme instead. Limited liability always creates the risk of moral hazard and that always requires a comprehensive reporting regime. As such the logic inherent in the micro-company reporting regime is flawed.

#### **Q19: Are there any existing filing requirements under the small or micro-entity regimes that could be discarded?**

The micro-entity scheme arrangements should be discarded for the reasons noted in our answer to question 18. The small companies reporting requirements should be reinforced with the requirements noted in our answer to question 8 for the reasons noted there.

#### **Q20: What would be the impact on small companies if the Companies House filing requirement was aligned with HMRC's to require a profit and loss account?**

There should be no additional impact given that we recommend that all companies be required to file their full statutory accounts on public record, and without exception these will include an income statement.

#### **Q21: How do you think the current small company filing options could be amended to help combat economic crime whilst maintaining a simple filing system for small entities?**

Without adopting a full audit requirement (and we are reluctant to recommend that at present our suggestions are that:

- a. The micro-entities reporting regime be ended for reasons noted in our answer to

question 18 as well as those you note in your consultation document (Para 59) and that the abbreviated accounts regime be ended for the reasons you note in your consultation document (Para 60). In both cases this is to:

- Reduce abuse;
- Reduce confusion;
- Simplify choices;
- Protect stakeholders;

- b. That the provisions on filing of financial statements noted in our answer to question 15 be adopted;
- c. That a further vital check be incorporated into the operations of Companies House and HM Revenue & Customs. Under the international automatic information exchange regime<sup>10</sup> it is mandatory that HMRC supply the tax authorities of regimes outside the UK with information on the turnover of companies in the UK that have beneficial owners not resident in this country. As such UK banks are able to supply this information with regard to their corporate clients when they have identified that that they have significant non-UK resident beneficial ownership. It makes sense that this regime now be used within the UK. In other words:
- i. All UK banks and other registered financial service providing services equivalent to banks plus all those providing accounting services to such companies be required not less than once a year to provide a list of all those companies that they provide services to in the UK , including those incorporated in other jurisdictions;
  - ii. That they also certify the gross sum deposited from third party sources (i.e. excluding inter-account transfers) by that company in the year, or that they certify the turnover of the entity that they reconciled to bank sourced data, or that they certify that they have not been able to determine this information, with reasons given;
  - iii. That HMRC be required to review this data (having allowed for VAT) to determine whether it is reasonable that it might be equated to the turnover declared by the company in its annual financial statements;
  - iv. That in the absence of filed accounts and corporation tax returns that HMRC use this data as the basis for raising estimated corporation tax assessments and that Companies House use such data as the basis for imposing penalties for failing to file accounts of the type noted in our answer to question 15 on directors of the company.

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<sup>10</sup> <https://www.oecd.org/ctp/exchange-of-tax-information/standard-for-automatic-exchange-of-financial-account-information-for-tax-matters-9789264216525-en.htm>

## Section 7: Changing and clarifying filing requirements

**Q22: What would be the benefits of requiring companies to file the most detailed set of accounts that have been prepared?**

As we noted in our answer to question 5, we consider limited liability to be a privilege granted by society in exchange for which accounts showing a true and fair view must be filed on public record. We do not see how there can be more than one such set of financial statements for any company and as such believe that the most complete set available must be those made available. The benefit is in protecting the public from the moral hazard that limited liability inevitably creates. We believe that it is the task of government to provide such protection.

**Q23: What would be the disadvantages of requiring companies to file the most detailed set of accounts that have been prepared?**

We do not think that such disadvantages exist. In our opinion companies themselves benefit from greater disclosure. They face risk as a result of trading with other limited liability entities, and this disclosure mitigates it. We do not see a downside for companies from such disclosure as a result if all are made to comply with it, as we would wish.

## Section 8: Greater checks on financial information

**Q24: What are your views about the general premise that checks should be conducted on all accounts prior to them being accepted as fit for filing on the public register?**

We believe that such checks should take place to ensure that only information that is likely to be proved to be reliable is included on the Companies Registry.

**Q25: Additional checks will be limited. Bearing in mind resource and expertise constraints, can you provide examples of what information Companies House should check as a priority and how it can be checked?**

We do not accept the premise that additional checks must be limited. There is ample capacity to fund all necessary checks if the annual company filing fee is increased to cover such costs.

At a minimum we would expect that it be proven that:

- a. An appropriately authorised person has filed the accounts (see our answer to question 15);
- b. That the declared turnover can be reasonably reconciled with data supplied by third

parties (see our answer to question 21);

- c. That all the major elements of the accounts that might be expected are present (directors' report, income statement, statements of movements on reserves, cash flow (see our answer to question 8), balance sheet, necessary notes to the accounts for all balances likely to require explanation based on the foregoing statements; statements on related party transactions and controlling interests);
- d. A corporation tax return is filed, if required.

**Q26: Examples of suspicious activity in a company's accounts may be incomplete, inconsistent or apparently misleading information. Can you provide examples of information in a company's accounts that may be an indicator of suspicious activity?**

We believe that by far the most likely source of information revealing such errors would be that to be provided by an automatic information exchange mechanism of the type we describe in our answer to question 21. Without such information the chance of discovering suspicious activity by inspection alone is very low.

### Section 9: Displaying key information on the register

**Q27: Which elements of financial information would be most useful to see on the company overview page?**

We suggest the following, all of which can easily be automatically created with i-XBRL coding. We stress that a five-year summary is important:

#### Sample Companies House Overview Page

##### Income statement

	Most recent year	Prior year 1	Prior year 2	Prior year 3	Prior year 4
	£	£	£	£	£
Turnover					
Distribution costs					
Gross margin					
Administration costs					
Operating profit					
Other income					
Other expenditure					
Net profit before tax					

Tax	
Net profit after tax	<hr/>
Dividends	
Other movements in reserves	
Change in equity in the year	<hr/> <hr/>

<b>Ratio analysis</b>	%	%	%	%	%
Gross margin %					
Operating profit %					
Net profit %					
Effective tax rate %					
Dividend %					

**Balance sheet**

	£	£	£	£	£
Tangible fixed assets					
Intangible fixed assets					
Other long-term assets					
<b>Total fixed assets</b>					<hr/> <hr/>

**Current assets**

Stock and work-in-progress	
Trade debtors	
Other debtors	
Cash and bank balances	
Other current assets	
<b>Total current assets</b>	<hr/> <hr/>

**Current liabilities**

Trade creditors	
Taxes due	
Accruals	
Income in advance	
Bank and other borrowings	
Other current liabilities	
	<hr/> <hr/>

**Deferred liabilities**

Deferred taxation	
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Pension liabilities					
Bank and other borrowings					
Other long term liabilities					
<b>Net assets/ liabilities</b>					
<b>Equity</b>					
Share capital					
Share premium account					
Equity reserves					
Other reserves					
Shareholder's funds					
Minority interests					
<b>Net assets/ liabilities</b>					
<b>Ratio analysis</b>					
	%	%	%	%	%
Fixed assets as % of total assets					
Current ratio					
Long term liabilities as % of total assets					
Equity as a % of total assets					

**Q28: What non-financial information would you like to see on the company overview page?**

- Trading address of the company;
- Trading names of the company;
- Its website address;
- A contact email address;
- Names of the directors, with links to their personal Companies House files;
- Identify of all the major shareholders;
- Name of controlling entity and a link to its file, if appropriate;
- Names of related parties with whom the company has contracted.

**Q29: Do you have any additional comments about this proposal?**

No. We are, however, happy to provide additional information if requested to do so or to provide additional evidence.