The newsletter for insurance brokers and MGAs

Issue two: Summer 2024

PKF

Broking Business

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Welcome to our latest issue of Broking Business...

Our recent experience of advising and carrying out audits for consolidators in the broking sector has shone a light on many accounting issues. Some are recurring, others are more unusual. But most lead to accounting and audit challenges. We share insights to help guide you through the accounting complexities that can arise when acquiring another broking business.

The FCA is hot on the heels of firms that try to set up or run non-statutory trust (NST) client money accounts without the required auditor sign-off. Is your firm compliant with the requirement? We explore how you can obtain your letter, the consequences and possible reasons for non-compliance, and offers guidance on how to avoid getting caught out.

The FRC has recently published periodic changes to FRS 102. So, what do these changes mean to you and when should you adopt them? We review the updates in detail and shares insights on the key changes, how your revenue streams will be impacted and whether you should consider early adoption.

More and more large consolidators are tending to take a 'belt and braces' approach when it comes to audit, costing them a great deal in fees. Could the answer be to use the parental guarantee entitlement of the parent company? Whilst take up of the parent guarantee to bypass audits is relatively uncommon among insurance intermediaries, we explain why it could be right for you.

As always, please contact any of the team to discuss how we can support your business and let us know your thoughts on future topics.

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Non-statutory trust letters: don't get caught out

The FCA is hot on the heels of firms that try to set up or run non-statutory trust (NST) client money accounts without the required auditor sign-off.

Firms that operate a non-statutory trust (NST) under CASS rules must obtain an up to date NST systems and controls letter from their auditors. This is to confirm that their NST systems and controls are adequate to monitor and manage the credit risks arising from running an NST account.

Contrary to popular belief, this confirmation is not embedded in the client money audit report. It is acknowledged separately and should be refreshed periodically and updated as necessary.

The confirmation is required on the initial set-up of the account. It is needed to confirm to the FCA that the firm has established systems and controls to enable them to monitor and manage the credit risk arising from the operation of the NST account. This is required to be sent to the FCA prior to the regulator granting the firm permission to hold client money under an NST CASS environment.

Many auditors issue a caveat saying that they cannot yet confirm compliance, as the firm will not have begun operating the NST account. But they add that, should the firm start with systems and controls as stated, it would be compliant.

Auditor confirmation of systems and controls

As part of the firm's regulatory reporting, it must also confirm to the FCA that, if operating an NST account, it has obtained an auditor's confirmation of systems and controls as required by CASS 5.4.4R(2).

There is some discussion in the market as to how regularly this confirmation must be obtained. Some auditors, including PKF, provide it annually, along with the CASS assurance report. Others provide it just once, on initial set-up of the account.

The FCA has said the auditor's confirmation must be 'refreshed periodically'. This could mean as and when there are changes to the NST environment. We take the view that this is best interpreted by refreshing the confirmation annually. But certainly, there is a general consensus that it should be more often than just on initial set-up, particularly given the fact that at that stage no trading has taken place.

Consequences of non-compliance

The FCA takes a very dim view of firms that have not received an updated and current NST systems and controls letter. It sees this as a fundamental breach of their obligations under CASS 5.4.4 and will very quickly engage with those firms and set a time limit for obtaining the NST letter. If they fail to do so, they will be obliged to cease holding client money under an NST account immediately and revert to a statutory trust arrangement.

The FCA's concern is that a lack of sound and robust credit control processes and funding policies and procedures goes hand-in-hand with opaque and untidy ledgers. These in turn mask problems on recovery of debts which would inevitably lead to bad debts and capital resource issues.

Reasons for non-compliance

A firm's failure to obtain an NST systems sign-off letter is usually for one of two reasons. They may be unaware of the requirement, believing the confirmation is inherent in the CASS assurance report. Alternatively, auditors may be unable to issue an NST systems sign-off letter given the pervasive and systemic nature of the firm's CASS breaches. This is referred to as an 'adverse CASS 5 opinion'.

Either reason requires prompt and effective engagement with the FCA, putting a plan in place to rectify any breaches and obtaining the required confirmation letter.

The regulator is becoming increasingly strict on those firms without the NST letter – and is easily able to obtain this information via RMA-C. Is your firm compliant with the requirement?

For more information or advice regarding NST letters, please contact Paul Goldwin or Charles Drew.

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UK GAAP: the latest updates for Brokers

The FRC published periodic changes to FRS 102 in March. So, what do these changes mean for you?

In a previous edition, we provided an overview of the proposals in FRED 82, which were issued at the end of 2022. In March this year the FRC made amendments to FRS 102. These include a new model of revenue recognition based on IFRS 15, a new model of lease accounting based on IFRS 16, and various other incremental improvements and clarifications. The revised standard is applicable from 1 January 2026.

Periodic amendments happen at least every five years, but these latest changes are significant. The FRC has considered proportionality in making them and allows for more flexibility and practical expedients compared to the equivalent IFRS 15 and IFRS 16 standards.

A key benefit of alignment with IFRS principles is that high quality financial information supports a range of broader effects, including improved access to capital. There is consistency with international accounting principles in key areas, which improves comparability and reduces 'GAAP differences'. This means the consolidation process requires fewer topside adjustments for IFRS groups with subsidiaries reporting under UK GAAP. On the other hand, with further alignment while providing reduced disclosure frameworks, UK GAAP is a more attractive option for IFRS group subsidiaries.

What are the key changes?

Revenue recognition

In short, if you have revenue streams, you will be impacted.

The key change is the introduction of a single, comprehensive five-step model for revenue recognition. This will apply to all contracts with customers broadly aligned with IFRS 15, but with some simplifications. The five steps are:

1. Identify the contracts with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognise revenue when each performance obligation is satisfied.

The FRC believes these changes will make it easier for entities to account for revenue transactions correctly and consistently, across all sizes of entity and all contract types. This means more reliable and useful information about the nature, amount and timing of revenue and cash flows arising from contracts with customers.

Leases

In short, if you have material operating leases you will be impacted.

The key changes to leases are:

- No longer a distinction between operating and finance leases
- More leases now recognised with an asset and liability on-balance sheet (similar to the now extant finance lease accounting)
- Recognition exemptions allow short-term leases and leases of low-value assets to remain off balance sheet
- Compared with IFRS 16 leases, a higher threshold for low-value assets means FRS 102 does not require recognition of as many leases on the balance sheet.

The FRC claims the changes provide several benefits. Financial information is improved through greater transparency over the indebtedness of the business. Information about assets and liabilities is more relevant, with a clearer picture of the economics of significant lease arrangements.

Other changes

Other amendments include:

- Section 2A Fair Value Measurement – updated to align definitions with latest international standards, and provide additional guidance
- Section 7 Statement of Cash Flows – new disclosure requirements for supplier finance arrangements (effective 1 January 2025)
- Section 26 Share-based Payment – additional guidance, making application of the principles easier in certain situations
- Section 29 Income Tax – introduction of guidance on accounting for uncertain tax positions
- Section 34 Specialised Activities – improvements and clarifications on existing requirements and how to make consequential changes to reflect other amendments.

How might you be impacted?

Revenue recognition

The commercial impact of these changes could be wide reaching for the insurance broking sector. So, it's important to review all major customer contracts in detail to understand the potential impact. The new revenue standard has requirements for identifying distinct performance obligations.

Brokers should consider the various services they provide, make an allocation to performance obligations based on the relative stand-alone selling prices, and analyse potential patterns of revenue recognition. Entities might need to exercise judgement as to what constitutes a 'distinct' performance obligation and the period or pattern over which a customer receives the benefits of these distinct services.

The timing of revenue recognition for your business is also likely to be affected. Arrangements that feature multiple service obligations and contingent or variable consideration need particular attention. This is because the amended revenue standard requires entities to recognise revenue when a performance obligation is satisfied, even if the amount of revenue is uncertain.

This means that some entities might be able to recognise revenue earlier. But if the amount is highly susceptible to factors outside the entity's influence, revenue recognition is constrained. An example of this might be profit commission that varies with a carrier's claims experience. At the start of such contracts, the entity might need to constrain revenue recognised. Over time, as the uncertainty resolves and revenue becomes more assured, the entity can recognise more of it.

In many commercial lines of business, brokers perform ongoing post-placement services (for example, claims management, policy administration and customer care). But recognition of all the commissions upfront at initial placement would be inappropriate. The changes have made revenue recognition more prescriptive than under current UK GAAP, so more consistent recognition by different entities with similar contracts is likely to emerge over time. This is a good outcome for preparers and users of financial statements.

Leases

The new lease accounting model will see most material leases brought onto the balance sheet. This will impact your financial statements and key ratios, as your lease liabilities and right of use assets are reflected. It will also increase finance expenses and depreciation of the right of use assets and decrease the operating lease rentals in the income statement.

The IFRS 16 definition of what constitutes a lease might also mean that new contracts are identified as leases that were not previously accounted for under that heading. For example, in group scenarios, a decision on which entity has the right of use of an asset could mean new leases and sub-leases, in turn resulting in more complexity.

Broader impact and next steps

All these changes could affect your profit margins, reward schemes, and ability to meet financial obligations or pay dividends. So, it's important to start planning for a successful transition now. While 2026 might seem a long way off, it's still wise to put these amendments onto your finance team's agenda, given the implementation costs and challenges brought by IFRS 15 and IFRS 16.

Why not start by drawing up an inventory of all revenue and lease contracts, including any side agreements and implied contracts? Consider setting up an implementation team that includes not just those in finance but also contract managers, legal, brokers and IT.

Start engaging with your contract counterparties to clarify any contract terms that are subject to interpretation and formalise any intercompany arrangements that could be impacted. Depending on the complexity of your contracts, consider seeking professional advice.

UK GAAP reporters can benefit from the lessons learned from IFRS 15 and IFRS 16 implementation. We highly recommend getting your finance team to look at some of the findings from the FRC's thematic reviews of disclosures on the first year of application of IFRS 15 and IFRS 16.

Should you early adopt?

It depends on your circumstances. Early adoption might make sense for some.

The main effective date for the amendments is accounting periods beginning on or after 1 January 2026. Early application is allowed, so long as all amendments are applied at the same time.

This is a great opportunity for reporters to align UK GAAP accounting policies with IFRS groups, if applicable. Even if you're not part of an IFRS group, doing so early has the benefit of adding credibility and comparability to your business as you become more aligned with IFRS reporters.

It could also make your business more valuable to a potential acquirer and/or lender and improve access to capital. In the broking sector, as we highlighted in a separate article on the accounting challenges faced by broking consolidators, alignment of accounting policies both during the due diligence process and subsequently is a key consideration.

These amendments make transition more attractive for entities reporting under full IFRS or FRS 101 within a group to FRS 102. That's because there might be minimal changes to accounting policies, while significantly reducing disclosure requirements for eligible entities.

Whether or not early adoption is the best approach for you, our experience of helping others through the IFRS 15 and IFRS 16 transitions tells us you should tackle the potential transition issues early. This means they can be factored into your financial project plans and budgets, securing resources in advance and avoiding other potential future conflicts in your teams.

How can we help?

Our accounting advisory team can help you with impact assessment, implementation and transition to the amended FRS 102 standards. We have a team of experienced accounting specialists who have previously worked on IFRS 15 and IFRS 16 transition and understand the challenges these changes pose. Please don't hesitate to contact Satya Beekarry, Simoné Bester or Brian Were to discuss further.

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An insight into the accounting challenges broking consolidators face

Acquiring another broking business has accounting consequences. We provide an insight to help guide you through the complexities.

Our recent experience of advising and carrying out audits for consolidators in the broking sector has thrown up many accounting issues. Some are recurring and others more unusual. But most lead to accounting and audit challenges.

Valuation and allocation

The purchase price needs to be allocated to the individual assets and liabilities identified. This purchase price allocation (PPA) can be subjective, especially for complex assets with intertwined functionality. Intangible assets like brand value, customer relationships, and intellectual property (IP) require subjective judgement, so may not have a readily available market price.

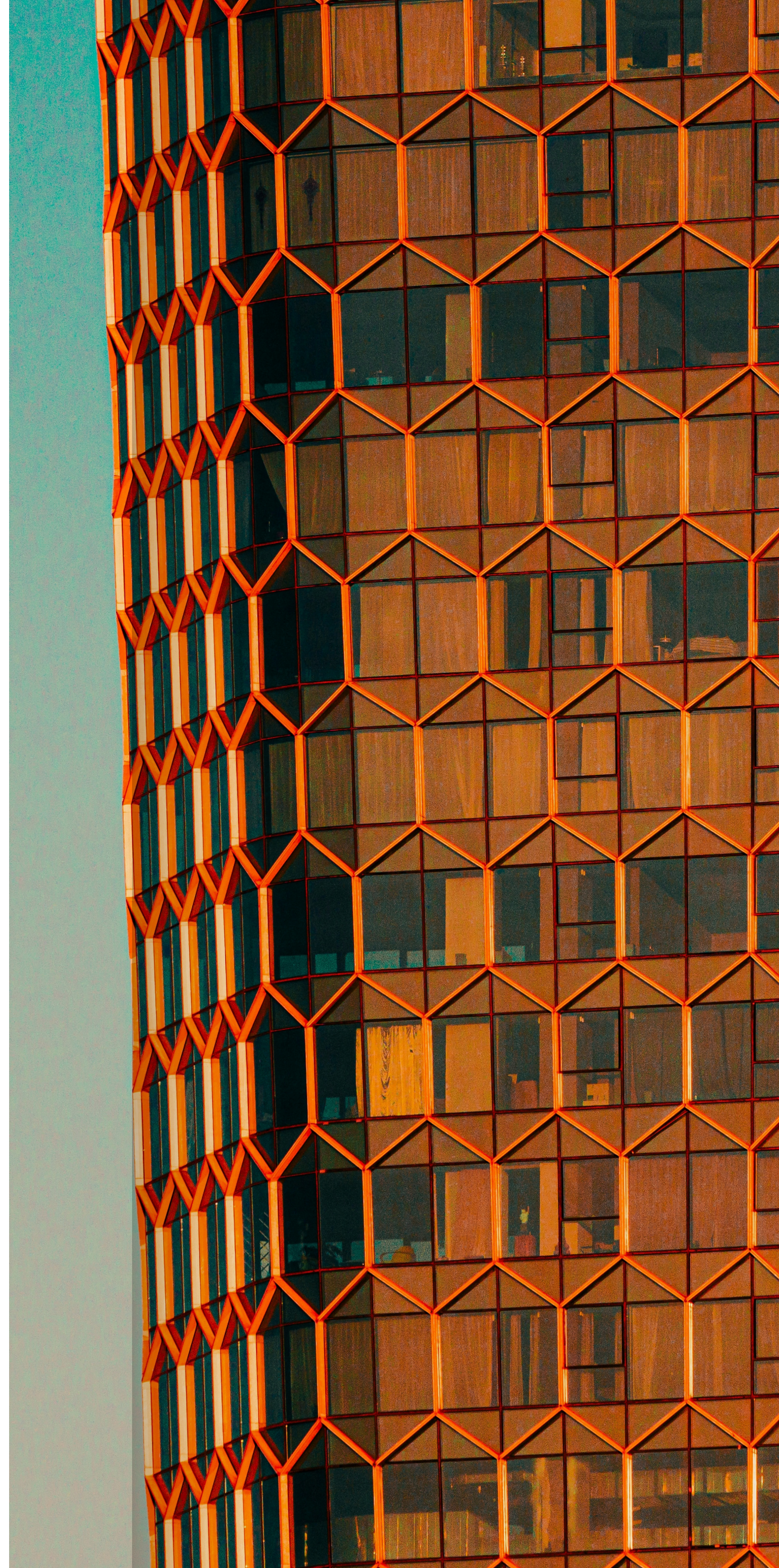
In practice, not all consolidators use a professional valuer for the PPA. But, depending on materiality, a PPA carried out in-house can often lead to audit challenges. PPA timing is also important. It should coincide with when the acquisition is effective rather than at or after the financial reporting date.

This is because it aims to allocate fair value of the net assets on acquisition, to be able to correctly calculate the goodwill at that date (see below). This is often overlooked and trying to value with hindsight may reduce the efficacy of the PPA process.

Goodwill

The difference between the purchase price and the fair value of the acquired net assets is recorded as goodwill. This represents the intangible value of an acquired brokerage. But it must be monitored for impairment on subsequent measurement. Assessing changes in the consolidated entity's performance, market conditions, or the acquired broker's outlook can be complex and may trigger an impairment charge on subsequent measurement.

Risk of cannibalisation can also trigger impairment charges in other parts of the existing business. For example, if the group plans to use the systems and IP of the acquiree in the rest of the existing group, the current systems might be impaired. On the other hand, as the acquiree is integrated into the acquirer's systems and processes, some of the recently acquired assets could be impaired after the acquisition.



Certain accounting frameworks like IFRS require separate valuations for each identifiable intangible asset. But under UK GAAP practice varies, and often the residual goodwill captures certain intangible assets that would otherwise be recognised as separate under IFRS. So, typically, the goodwill under UK GAAP is higher than it is under IFRS.

What's more, under UK GAAP goodwill, including negative goodwill, is amortised. But this is not the case under IFRS, where positive goodwill is assessed for impairment annually and negative goodwill is recorded directly to profit or loss. The amortisation period for goodwill under UK GAAP should not exceed 10 years, unless management can justify a longer period. But auditors are likely to challenge this.

These differences are particularly relevant for groups where the holding company is reporting under IFRS but the sub-group reports under UK GAAP, or where the acquirer and acquiree follow different accounting frameworks.

Contingent ('maybe') versus deferred ('later') consideration

Both contingent and deferred consideration involve delaying a portion of the purchase price in an acquisition. But they differ in the reason for the delay and the uncertainty surrounding the payment. The consolidator needs to properly account for these liabilities and adjust the PPA.

Contingent consideration is measured at fair value while deferred consideration is measured at present value (ie, on amortised cost basis). Deferred consideration isn't generally complex as it involves less uncertainty and is simply a deferral of part of the agreed consideration.

On the other hand, determining the fair value of contingent consideration can be challenging. That's because it relies on estimates of future events and involves a significant degree of judgement. Factors such as the likelihood of achieving performance targets, the timing of payments, and the discount rate used can have a great impact on the fair value. By nature, this estimate can be volatile and subject to notable fluctuations in fair value later, which affect the financial performance and position of the acquirer.

So, the initial measurement of any contingent consideration impacts the total consideration, and hence the value of the goodwill too. Practice in accounting for changes in the fair value of contingent consideration (ie, as a charge/income to profit or loss or an adjustment to goodwill) may vary. But note, too, that if the revised fair value of contingent consideration decreases, it can trigger an impairment charge to goodwill. This is because the overall value of the acquired company might be lower than initially thought.

Contingent liabilities

Under normal accounting rules, contingent liabilities are not recorded, as they don't meet the 'probable' threshold required for recognition. But when accounting for an acquisition, a fair value is assigned to any contingent liabilities the acquiree may have. This means that in the due diligence process any unrecorded contingent liabilities, such as potential lawsuits or tax disputes with authorities, should be identified and a fair value assigned as part of the PPA. But this can be difficult to do in practice.

If these liabilities emerge later, they can negatively impact the acquirer's financial performance. That's why the acquiree's previous owners may need to purchase an insurance policy for the benefit of the acquirer or provide a simple indemnification agreement instead. Often the previous owners are employed by the acquirer following the transaction. And this can lead to subsequent disagreements and disputes if such contingent liabilities are not disclosed and measured as part of the PPA.

Share-based payments

In the broking sector, it's common for the previous owners to also be key employees of the acquiree who may in turn remain as employees of the acquired business. Indeed, these individuals might be a key reason for acquiring the business in the first place. Where they receive cash or share-based payments, it's important to consider the economic substance of those payments to determine the accounting treatment.

Payments for employee services are post-combination expenses. By contrast, payments that are, in substance, consideration for the business acquired are part of the business combination's cost. So, the accounting treatment should reflect the transaction's commercial effect. This means for both the initial purchase consideration and subsequent payments, in the eyes of the acquirer and the seller.

It's usually assumed that the post-acquisition payments are treated as expenses if payments depend on the individuals continuing to provide future services to the acquired entity (or the group). But arrangements that are not affected by employment ending might suggest that contingent payments are additional purchase consideration. Several other factors can impact this judgement, among them are:

- Length of required employment period
- Non-compete clauses
- Level of remuneration
- Incremental payments to former employees
- Linkage to the valuation
- Other side agreements.

Accounting for, and the valuation of, share-based payments can be complex and more so when they arise on an acquisition.

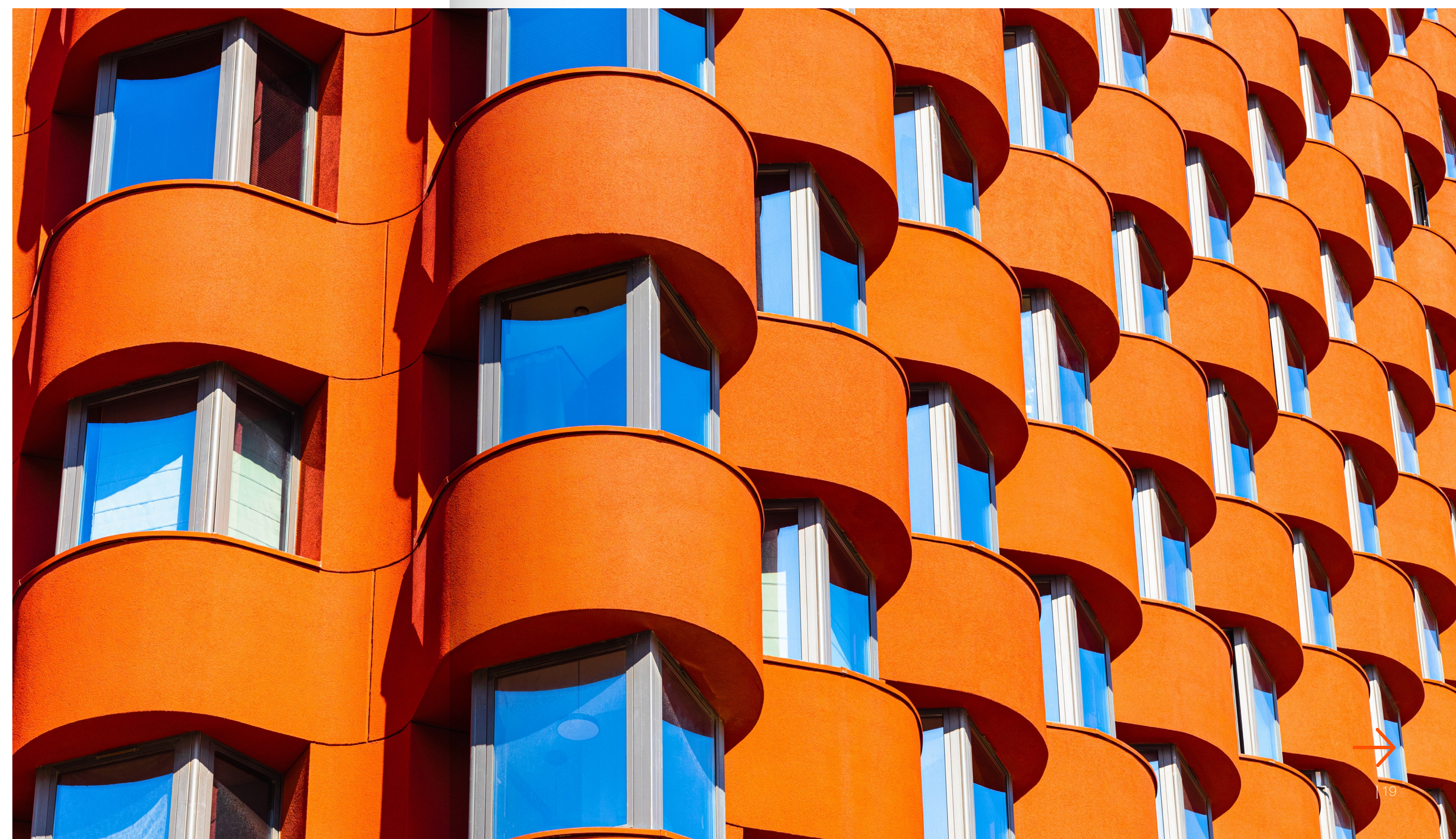
Revenue recognition and other accounting policy differences

An acquiree may well have used different accounting practices to the acquirer. These might apply, for example, in revenue recognition, capitalisation of intangibles, amortisation periods and presentation of insurance-related debtors, creditors, and client money. Many differences emerge as part of due diligence, but others may only be uncovered during a full scope audit of the acquiree.

It's vital to identify and reconcile these differences early, especially for revenue recognition and estimates (eg profit commissions), to present a cohesive financial picture of the consolidated business. A group must apply consistent accounting policies to its subsidiaries.

The variations arise for several reasons. They may have made different accounting policy choices, both of which comply with accounting standards. Or the acquiree may have historically applied policies that do not comply with accounting standards. If the former, the group should still align the new subsidiary's accounting policies with its own. If the latter, the accounting policies should be updated so they do comply with the relevant accounting standards.

In other cases, the acquirer might be reporting under IFRS and the acquiree under UK GAAP. Here, the acquiree does not need to change its reporting in standalone financial statements to IFRS. But some groups might prefer this option as the acquiree would still need to produce IFRS numbers for group reporting even if it continued to apply UK GAAP. Switching would avoid having to prepare two sets of numbers for solo and group reporting purposes.



Other integration costs

Various costs associated with integrating the acquired company, such as severance packages, lease terminations/renegotiations, system upgrades, data harmonisation and marketing strategy, must be accounted for. Restructuring provisions and/or onerous leases are not unusual following acquisitions, and accounting for these correctly can be challenging.

How the acquisition is structured and the location of the acquired business can also have significant tax and regulatory impacts on the group. Consolidators operating across different jurisdictions should be aware of local accounting standards, tax rules and laws and regulations.

Mitigation

A consolidator can implement certain measures to mitigate the impact of the accounting challenges we've highlighted. These include:

- Due diligence: a thorough review of the target company's financials and operations is essential for uncovering potential issues and hidden liabilities
- Experienced valuation professionals: engaging qualified professionals with expertise in valuing intangible assets, share-based payments and complex business models helps to produce a fair and accurate PPA in conjunction with the valuation of the whole business at the start
- Clear communication and documentation: clear communication and documentation of valuation methodologies and allocation decisions creates transparency and reduces the risk of audit challenges and future disputes with the sellers. We recommend that you prepare comprehensive accounting papers to document your rationale on each of the applicable issues and get input from your auditors early in the process
- Strong internal controls: implementing robust internal controls over the acquisition process helps mitigate the risk of errors and leads to proper accounting treatment for all transaction-related complexities.

So, it's vital to proactively address these challenges and implement appropriate accounting practices. That way, broking consolidators can achieve an effective integration of their acquirees while maintaining sound financial reporting and optimising the business for sustainable growth.

Our accounting advisory, valuation and transaction services teams are familiar with all these issues and well equipped to help you further. If you have any questions on anything outlined in this article, please contact Satya Beekarry, Simoné Bester or Brian Were.

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Exemption from audit by parent guarantee: it could be right for you

Take up of the parent guarantee to bypass audits is relatively uncommon among insurance intermediaries. But take a closer look.

More and more large consolidators, among them some of our clients, are tending to take a 'belt and braces' approach when it comes to audit. Having acquired numerous broking subsidiaries, they're assuming that every single one should go through the audit process. And this approach is costing them a great deal in fees.

Could the answer be to use the parent guarantee entitlement of the parent company? The option has been available for almost two decades and is detailed in the Companies Act 2006. But awareness of it in the sector is surprisingly low, except among auditors themselves.

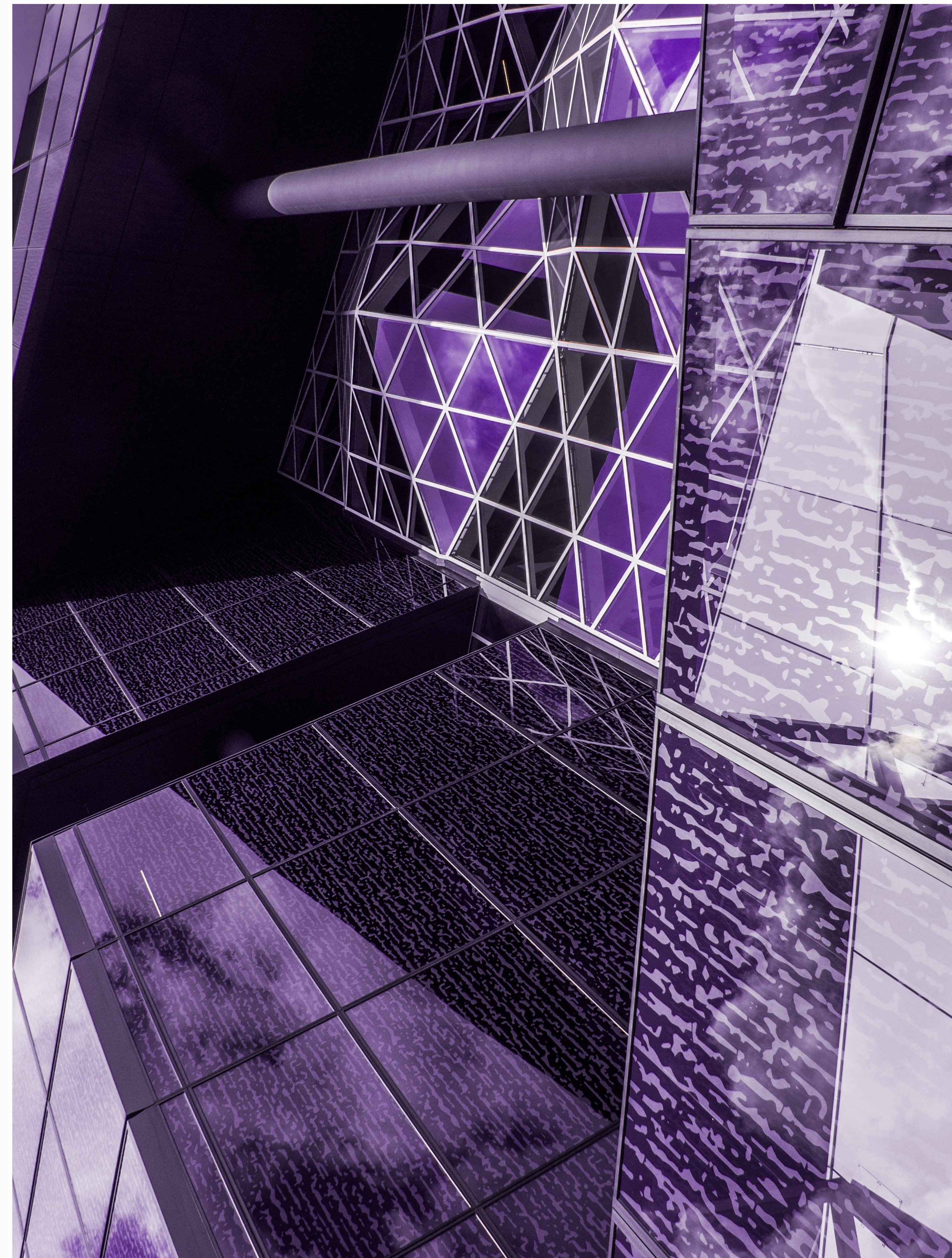
So, what are the benefits? Put simply, enacting the guarantee means the parent company can elect certain subsidiaries to be exempt from audit provided those subsidiaries are included in the consolidated accounts prepared in and available in the UK by the parent company.

It is a chance to rationalise the whole audit process by only requesting audits for the more major, or potentially risky, brokers. For the remaining subsidiaries, the parent company assumes the liability, both actual and contingent, for them at the balance sheet date.

Which entities can use the exemption?

Under the Companies Act 2006, there is no limit on the size of a company for the purposes of the exemption. However, certain types of subsidiaries are excluded, including traded companies and authorised insurance and banking companies.

It's important to note there is no 'ineligible group' as such. For example, even if the subsidiary's parent company or fellow subsidiary is an authorised insurance company, that doesn't affect its own eligibility for the exemption. There are, though, conditions regarding the status of the parent company. Similar provisions also apply to Limited Liability Partnerships.



What are the conditions for exemption?

For the subsidiary to be exempt, the following criteria (set out in s479A of the Act) must be met:

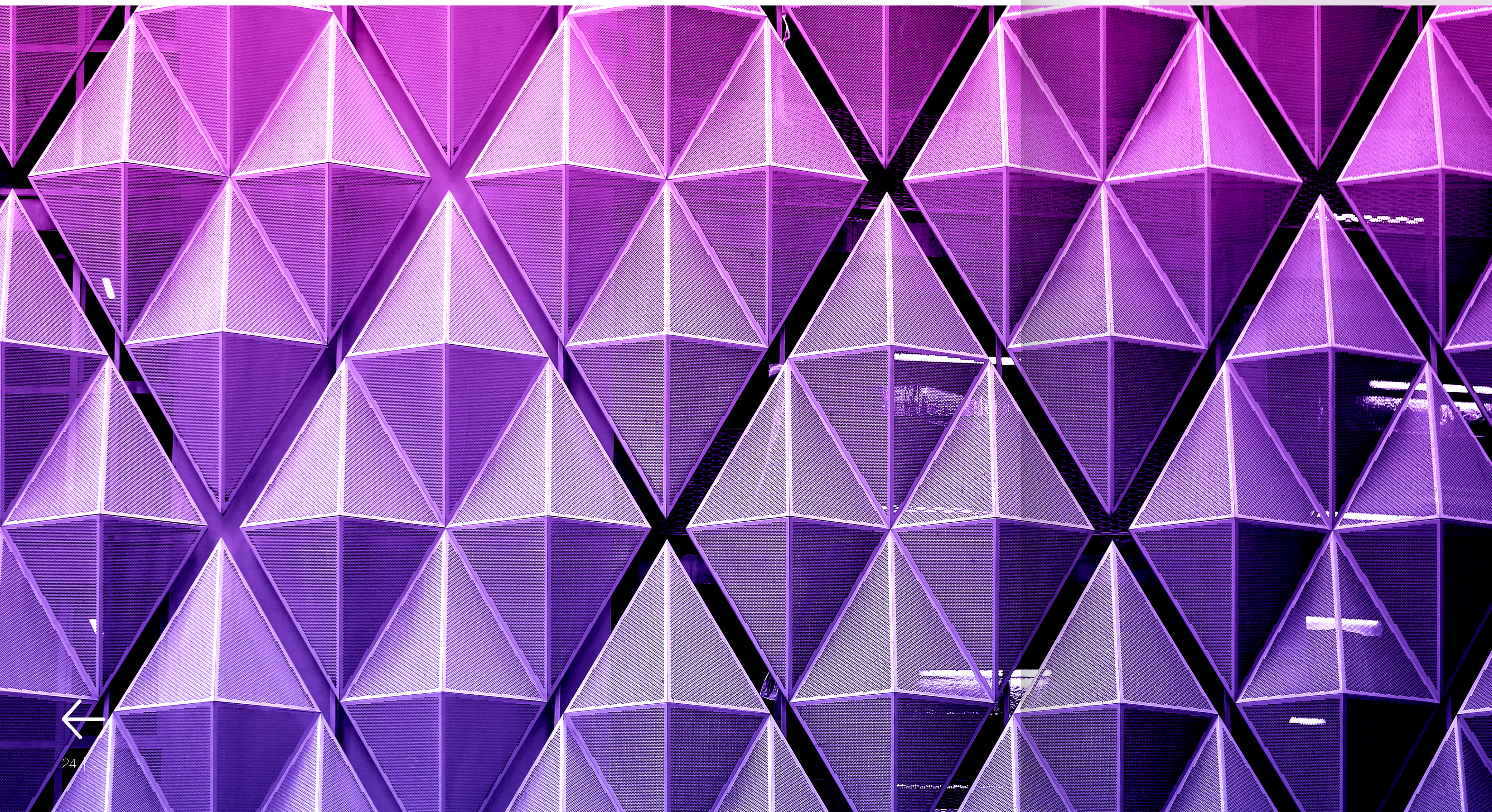
- the parent company is established under the law of any part of the UK
- all members of the subsidiary agree to the exemption
- the parent company gives a parental guarantee
- the subsidiary is included in the relevant consolidated accounts in accordance with applicable accounting standards
- the parent company discloses in the notes to the consolidated accounts that the company is exempt from the requirements of the Act
- the directors of the subsidiary deliver to the registrar, on or before the date they file the accounts for that year, the documents set out in the Act.

What are the formalities for members agreeing to use the exemption?

The members of the subsidiary must consent unanimously. Separate consent will need to be given for each year the exemption is used because:

- under the Act consent must be specific to the financial year in question
- the exemption from audit applies to each financial year, so to give consent in advance on a prospective basis might trigger a claim of invalidity.

A single document may prove consent by a parent in relation to multiple subsidiaries. But separate copies should be filed at Companies House for each subsidiary claiming the exemption.



There is no prescribed form in which consent must be given but the company will need evidence that it was obtained. A written resolution signed by all the members is one of several options. Companies House specifies that the notice of agreement by members must show the subsidiary company's name and registered number in a prominent place.

There is no facility in the Act for a member to withdraw consent for a particular financial year once it has been given. But the exemption is subject to certain rules, which allow members holding 10% of any class of shares to request an audit by giving notice to the company at least one month before the end of the financial year in question. This could be used by one or more members, in effect to 'withdraw their consent'.

What are the deadlines for obtaining the exemption?

The formalities for obtaining the exemption need not be completed before the subsidiary's year end but must be done before its accounts are filed. It's important to remember that the consolidated accounts of the parent company must refer to the guarantee and name the relevant subsidiary. So, this may impose an earlier effective deadline.

What are the requirements of the parent?

The guarantee need not be provided by the ultimate parent company, but instead by an intermediate parent. But whichever provides the guarantee must also prepare consolidated accounts. For further conditions, see above.

What disclosures are compulsory for a subsidiary using the audit exemption?

All disclosures must be complete and accurate. If not, they will be rejected by Companies House. It provides example wording for the balance sheet, as follows:

- For the year ending (dd/mm/yyyy) the company was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies
- The members have not required the company to obtain an audit of its accounts for the year in question in accordance with section 476
- The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts.

What are the disadvantages of using the parent guarantee?

As we've said, the effect of the guarantee is that the parent company assumes all outstanding prospective, actual and contingent liabilities at the end of the financial year in question, until they are fully satisfied.

This requires caution, then, in selecting which subsidiaries should qualify for the exemption. For example, if a consolidator is parent to a group of 50 companies, it may well be that a few of those are 'central' companies – and therefore worth auditing – while the others may quite quickly be incorporated by the central ones.

In this case, unless any of those subsidiaries is considered especially 'risky', it makes no sense to audit them all. This is particularly true where some may be simple 'single or few transaction' companies, which are common in a private equity structure – such as intermediate holding companies. In reality, there's very unlikely to be any liability for the parent.

But the group should always ensure there's no other reason why a simple company might need auditing. For example, before it selects its companies for audit exemption, it may need to comply with debt covenant obligations.

What if there's a change of ownership of a subsidiary covered by the guarantee?

The guarantee remains in force until the liabilities are settled in full, regardless of whether the parent has disposed of that subsidiary. There's no provision to revoke the guarantee or novate it to another party. It could, though, seek an indemnity from the purchaser of the subsidiary but the former parent would remain liable to its creditors all the same.

If the new parent also enters into a guarantee for a subsequent financial year and there are still outstanding liabilities from a previous balance sheet, it's possible that the same liabilities may have been guaranteed by more than one parent. A creditor might claim against either guarantor. And that guarantor is given no rights by the Act against the other guarantor but may have an equitable right of contribution from other guarantors of the same outstanding liabilities.

Does the guarantee fall away if the subsidiary later decides to have an audit for the year in question?

No, it doesn't. There's no provision in the Act for the parent's liability to cease except on the full satisfaction of the subsidiary's liabilities. So, an audit would not change that.

How can we help?

If you have further questions on the parent guarantee, please contact us and we will be happy to advise.

Adopting the parent guarantee would reduce the number of audits you require for your group and therefore save on fees for unnecessary audits. Bear in mind, though, the parent company must produce a group report regardless, so our support would still involve work relating to the exempt subsidiaries.

For further information on how we can help, please contact Paul Goldwin or Lorraine Nixon.

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About PKF
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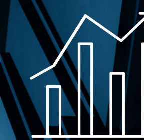
12th
Largest audit practice in the UK in the latest Accountancy Daily rankings

17
Offices across the UK

1,450+
Employees and 180 partners

£153m
Fee income and growing rapidly



Insurance intermediaries in numbers

1st
Largest auditor of insurance intermediaries

100+
Insurance intermediary clients

50%
Working with half of the UK's Top 50 Brokers

15
PE backed insurance intermediary clients

PKF Global in numbers

Part of the 14th
Largest global accounting network

480
Offices in 150 countries

$1.4bn+
In aggregate fee income

21,000
Employees

Get in touch today to see how we can help...

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