ACCOUNTANCY EUROPE.

AUDIT EXEMPTION THRESHOLDS IN EUROPE

2019 update

Survey results

FACTS.

AUDIT & ASSURANCE
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HIGHLIGHTS

Following the 2013 Accounting Directive, small European Union (EU) companies are no longer required to have a statutory audit. However, the EU legislation allows Member States to impose an audit on their small companies based on their specific circumstances.

This publication follows up on our 2016 factsheet and presents the current audit exemption thresholds in Europe and how several countries have recently amended them.

Our survey results show that four EU countries have lowered their audit exemption thresholds while two countries have increased them between mid-2016 and early 2019. Overall, there was no clear upward/downward trend in the development of the thresholds in this period. We also found diverging national policies and views on auditing smaller entities.

INTRODUCTION

This publication follows up on our 2016 publication[1] and presents the currently applicable audit exemption thresholds in Europe. Since 2016, several European countries have amended their legislation on the thresholds. This paper provides an overview of the main changes.

The data for this publication was provided by Accountancy Europe's Member Bodies.

BEFORE THE 2013 ACCOUNTING DIRECTIVE

Up to the introduction of the latest Accounting Directive[2] in 2013, there had always been an EU requirement to have a statutory audit of 'small undertakings'. However, Member States had been allowed to exempt all or part of their small companies, as defined locally, from a statutory audit, but within the confines of the EU legislation. This was known as the 'opt-out' Member State option.

CURRENT SITUATION: THE 2013 ACCOUNTING DIRECTIVE

Nowadays, following the transposition of the 2013 Accounting Directive, companies defined as small undertakings are no longer required to have a statutory audit based on the EU legislation. Recital 43 of the 2013 Accounting Directive clarifies that this is the intention.

The 2013 Accounting Directive requires audit of the following categories of companies:

- public interest entities (PIEs)

  Broadly, PIEs are entities traded on a regulated market, credit and insurance institutions and other entities specifically designated as such by Member States.[3]
- medium-sized and large undertakings

Nevertheless, Member States can impose an audit on all or part of their small undertakings, also referred to as the 'opt-in' regime. This decision to opt-in is usually driven by the conditions of these small companies and the needs of the users of their accounts. Indeed, the size of a country's economy as well as the size of its individual entities might be taken into consideration. The need for certainty to banks, suppliers, shareholders, employees and especially tax authorities might play a role in this decision too. The decision to require audit of small companies might also come as a measure aiming to decrease the risk of economic crime and business insolvency.[4]

AUDIT EXEMPTION THRESHOLDS

The 2013 Accounting Directive defines small undertakings as those which, on their balance sheet date for two consecutive years, do not exceed the limits of at least two of the three following criteria:

a) balance sheet total: EUR 4,000,000

b) net turnover: EUR 8,000,000

c) average number of employees during the financial year: 50

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[1] *Audit exemption thresholds in Europe* (2016); available at https://www.accountancyeurope.eu/publications/1605-audit-exemption-thresholds/

[2] *Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings*; available at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32013L0034

[3] For information on the definition of a public interest entity per country, refer to our publication *Definition of public interest entities in Europe* (2017); available at https://www.accountancyeurope.eu/publications/definition-public-interest-entities-europe/

[4] For more details, refer to our publication *Rediscovering the value of SME audit* (2018); available at https://www.accountancyeurope.eu/publications/rediscovering-value-sme-audit/

It should, however, be noted that Member States are permitted to increase the thresholds for a) and b) to a level not exceeding:

a) balance sheet total: EUR 6,000,000
b) net turnover: EUR 12,000,000

In addition, they are allowed to increase or decrease the EUR thresholds by up to 5% to allow conversion into a national currency at a round sum amount.

WHAT HAS CHANGED SINCE 2016?

In the below Table 1, we provide an overview of the current audit exemption thresholds applicable in European countries. In addition, we look at the changes to audit exemption thresholds as compared to our May 2016 publication[5]. The main changes are the following:

- **Four Member States – Cyprus, Estonia, Italy and Romania – have lowered their audit exemption thresholds**
  - Cyprus has abolished all audit exemption thresholds, making audit mandatory for all companies as of 16 September 2016. Until that date, the Companies Law in Cyprus exempted the small companies from the audit requirement (the thresholds were EUR 3,400,000 for balance sheet total, EUR 7,000,000 for net turnover and 50 for the number of employees at the time). However, since the Cyprus tax laws require audited financial statements regardless of the size, the exemption had in fact not been used by companies. The abolition of the audit exemption thresholds was made to eliminate the discrepancies between the Cypriot laws without any actual change in practice
  - Estonia has lowered the threshold for the number of employees (previously, it was 60)
  - Italy has lowered all three thresholds (previously, these were EUR 4,400,000 for balance sheet total, EUR 8,800,000 for net turnover and 50 for the number of employees)
  - Romania has lowered the threshold for balance sheet total as well as for net turnover (previously, these were EUR 3,650,000 and 7,300,000 respectively)
- We have added information on audit exemption thresholds in Turkey. The last revision of the thresholds in Turkey took place in 2018, lowering all three of them (previously, these were EUR 6,250,000 for balance sheet total, EUR 12,500,000 for net turnover and 200 for the number of employees)
- **Two Member States – Denmark and Ireland – have increased their audit exemption thresholds**
  - Denmark has increased the threshold for balance sheet total as well as for net turnover to the maximum allowed amounts (previously, these were EUR 4,837,000 and 9,674,000 respectively)
  - Ireland has increased the threshold for balance sheet total as well as for net turnover to the maximum allowed amounts (previously, these were EUR 4,400,000 and 8,800,000 respectively)
  - In addition, in France, a draft law which foresees an increase of the statutory audit thresholds for all commercial companies is currently being discussed in Parliament
- With Denmark and Ireland having increased their thresholds, there are now five EU Member States (Denmark, Germany, Ireland, the Netherlands and the United Kingdom) that adopted the maximum allowed thresholds

Compared to our 2016 publication, in which we noted an increase of thresholds in eleven countries and a decrease in only one country, we do not see a clear upward or downward trend between mid-2016 and now. However, we highlight that in this timeframe, several countries have decided to lower their audit exemption thresholds as opposed to the previous developments.

[5] *Audit Exemption Thresholds in Europe* (2016); available at https://www.accountancyeurope.eu/publications/1605-audit-exemption-thresholds/

Table 1 - Audit exemption thresholds in 28 EU Member States, Norway, Iceland, Switzerland and Turkey in 2019[6]

Country		Balance sheet total (EUR)	Net turnover (EUR)	Number of employees
Austria		5,000,000	10,000,000	50
Belgium[7]		4,500,000	9,000,000	50
Bulgaria		1,000,000	2,000,000	50
Croatia		2,000,000	4,000,000	25
Cyprus		0	0	0
Czech Republic		1,500,000	3,000,000	50
Denmark	a[8]	537,000	1,075,000	12
	b[9]	6,000,000	12,000,000	50
Estonia	a[10]	800,000	1,600,000	24
	b[11]	2,000,000	4,000,000	50
Finland		100,000	200,000	3
France[12]	a[13]	1,000,000	2,000,000	20
	b[14]	1,550,000	3,100,000	50
Germany		6,000,000	12,000,000	50
Greece		4,000,000	8,000,000	50
Hungary		Not applicable	965,000	50
Iceland		1,400,000	2,800,000	50
Ireland		6,000,000	12,000,000	50
Italy[15]		2,000,000	2,000,000	10
Latvia		800,000	1,600,000	50
Lithuania		1,800,000	3,500,000	50
Luxembourg		4,400,000	8,800,000	50

[6] Data obtained from Member bodies of Accountancy Europe. Figures in currencies other than EUR were converted to EUR at the time when the data was obtained
[7] Thresholds are determined on a consolidated basis for groups, which leads to mandatory statutory audit for smaller entities in the group although individually they fall under the thresholds
[8] Above these thresholds, there is a choice between extended review or audit
[9] Above these thresholds, statutory audit is mandatory
[10] Thresholds applicable for statutory review
[11] Thresholds applicable for statutory audit
[12] In France, a draft law which foresees an increase of the statutory audit thresholds for all commercial companies is currently being discussed in Parliament.
Note: There is no audit exemption threshold for SAs and SCAs (sociétés anonymes et sociétés en commandite par actions)
[13] Threshold for SASs (sociétés par actions simplifiées) that are not part of a group (those that are part of a group are not exempt). No exemption for SASs that control or are controlled by one or more entities (control subsidiaries or jointly controlled) or if one or more shareholders representing at least 10% of the share capital require the appointment of an auditor
[14] Threshold for SARLs (sociétés à responsabilité limitée) and SNCs (sociétés en nom collectif)
[15] New Insolvency Law was approved by the Council of Ministers on 10 January 2019. After 30 days of the publication in the Italian Official Journal (expected in February 2019), the entities will have nine months to nominate the external auditor or the Board of Statutory Auditors (collegio sindacale).
For non-PIEs, the new Insolvency Law defines that the audit is mandatory after an entity has exceeded one of the three thresholds as per the Table 1 for two consecutive years. The audit is not mandatory when an entity has not exceeded any of the three thresholds for three consecutive years

Country	Balance sheet total (EUR)	Net turnover (EUR)	Number of employees
Malta[16]	46,600	93,000	2
Netherlands	6,000,000	12,000,000	50
Norway[17]	2,500,000	625,000	10
Poland[18]	2,500,000	5,000,000	50
Portugal[19]	1,500,000	3,000,000	50
Romania[20]	3,500,000	7,000,000	50
Slovakia	1,000,000	2,000,000	30
Slovenia	4,000,000	8,000,000	50
Spain	2,850,000	5,700,000	50
Sweden	150,000	300,000	3
Switzerland[21]	18,203,000	36,405,000	250
Turkey	5,500,000	11,000,000	175
United Kingdom[22]	6,541,000	13,082,000	50

DIVERGING DEVELOPMENT OF THRESHOLDS IN EUROPEAN COUNTRIES

In certain European countries – namely Sweden and Italy, the positives associated with audit of smaller entities[23] have recently become a prominent driver of favouring mandatory audit of smaller entities. At the same time, there are countries like Denmark moving in the opposite direction, i.e. exempting smaller entities from audit by increasing the thresholds. Below, we explain the reasons behind the development of the thresholds in these three countries.

SWEDEN DECIDED NOT TO RAISE ITS AUDIT EXEMPTION THRESHOLDS

In 2010, Sweden abolished a regulatory requirement for audit of all small limited liability companies with the aim to decrease the administrative and financial burden on these companies. In December 2017, the Swedish National Audit Office (NAO)[24], an independent body of the Swedish Parliament, published a report *Abolition of*

[16] No audit exemption threshold for tax purposes
[17] Limited-liability companies exempt from statutory audit if all three limits are not exceeded
[18] Exemption does not apply if an entity prepares its financial statements under IFRS
[19] No audit exemption threshold for SAs (sociedades anónimas)
[20] In January 2018, the thresholds in Romania were lowered by Order 470/2018. Based on the current legislation, public interest entities (PIEs) are required to have statutory audit regardless of thresholds. For large and medium-sized non-PIEs, the specific thresholds set by Order 1802/2014 are denominated in RON (used to be in EUR in the past). For this publication, the average exchange rate used for conversion to EUR is 4.6 RON/EUR
[21] Entities that do not exceed two of the three threshold criteria in two consecutive years are subject to a statutory limited examination (negative assurance engagement). Shareholders of entities with no more than ten employees can decide to opt out of any audit or review obligation
[22] The thresholds in British Pound (£5,100,000 for balance sheet and £10,200,000 for turnover) were converted to EUR using an exchange rate set in the original legislation transposing the 2013 EU Accounting Directive
[23] For more details refer to Accountancy Europe's publication *Rediscovering the value of SME audit* (2018); available at https://www.accountancyeurope.eu/publications/rediscovering-value-sme-audit/
[24] The Swedish National Audit Office is an independent agency charged with the audit of government institutions and the oversight of the state finances through financial and performance-based audits of state agencies, state-owned companies and the Government of Sweden. It operates directly under the Swedish Parliament (Riksdag) and is independent of political or other stakeholder interests. More information is available at https://www.riksrevisionen.se/en/Start/About-us/

audit obligation for small limited companies – a reform where costs outweigh benefits[25] that put this abolition into question.

The report demonstrates through an impact assessment that audit of small entities is valuable to both these entities and the public good. Specifically, exempting them from audit increases a number of risks to the economy. The Swedish report has in particular highlighted an increased risk of accounting errors, tax evasion and economic crime.

Based on these findings, in the context of recent discussions on raising the thresholds in Sweden, it was decided to keep the thresholds as they were, i.e. not to exempt more companies from the audit requirement.

ITALY DECIDED TO LOWER ITS AUDIT EXEMPTION THRESHOLDS

In parallel, Italy has significantly lowered the audit exemption thresholds as part of their recent business insolvency reform[26]. It was driven by the recognition that smaller companies not subject to any audit or control system had been the first ones to become insolvent. It was also acknowledged that a certain level of controls and early-warning mechanisms could be useful to avoid business failure. See the new Italian thresholds in Table 1 above.

DENMARK DECIDED TO INCREASE ITS AUDIT EXEMPTION THRESHOLDS

Since our 2016 publication on audit thresholds[27], Denmark has increased the threshold for balance sheet total as well as for net turnover to the maximum allowed amounts. However, it is important to note that Denmark has another set of thresholds in place (see Table 1 above) which are much lower and above which entities have a choice between extended review or audit.

Interestingly, in Denmark, there is currently a political discussion about going back to lower audit thresholds. It was sparked in early 2018 by a series of stories in the media about fraud in companies that had not been audited in combination with the Swedish report on negative effects of lowering the thresholds.

BEYOND MANDATORY AUDIT

In the context of audit exemption thresholds, it is important to highlight that small entities are the backbone of the European economy. Therefore, it is in the public interest to have high quality services that instil confidence and trust also in this part of the economy. Audit is among such services as auditors check if historical financial information is reliable, which is crucial for the functioning of the economy and its growth.

In countries where the thresholds have been increased, undertakings exempt from mandatory audit may make use of the services of professional accountants on a voluntary basis. It is therefore important that the profession demonstrates the relevance of audit and assurance services for small businesses, as for some of them the value of such services may not be immediately obvious. For this purpose, we highlighted in the discussion paper *Pursuing a strategic debate: The future of audit and assurance*[28] that it is key to understand and respond to the needs of stakeholders.

[25] A summary of the report in English and a full report in Swedish are available at https://www.riksrevisionen.se/en/audit-reports/audit-reports/2017/abolition-of-audit-obligation-for-small-limited-companies---a-reform-where-costs-outweigh-benefits.html

[26] The new law on business insolvency was approved by the Council of Ministers on 10 January 2019

[27] *Audit Exemption Thresholds in Europe* (2016); available at https://www.accountancyeurope.eu/publications/1605-audit-exemption-thresholds/

[28] Available at http://www.fee.be/images/publications/auditing/1601_Future_of_audit_and_assurance.pdf

Small- and medium-sized entities (SMEs) have diverse needs such as:

- assurance on the reliability of the financial information reported
- getting more confidence on going concern
- ensuring appropriate disclosures
- assurance on the risk coverage

The profession should take this opportunity to promote a broad array of services meeting these needs as well as to develop new ones responding to new demands. In the case of SMEs, the focus should not only be on delivering what is prescribed by the legislator, but also on understanding and adapting services to the clients' needs.

CONCLUSION

We noted that four European countries have lowered their audit exemption thresholds while two countries have increased them between mid-2016 and early 2019. Overall, there was no clear upward/downward trend in the development of the thresholds in this period.

There are diverging national policies and views on audit of smaller entities. Given this backdrop, it is interesting to see countries with mature economies like Italy and Sweden undertaking an evidence-based assessment of the effectiveness of their previous reforms which exempted small entities from the audit requirement. Meanwhile, in countries where the audit exemption thresholds are high, small undertakings exempt from audit may nevertheless, on a voluntary basis, make use of audit and assurance services which respond to their needs.

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