

Opportunities and consequences of the repeal of statutory auditing due to the introduction or increase of audit thresholds

Rabbe Nevalainen

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Introduction

- ▶ As a result to increase the competitiveness for SME's EU has several recommendations to decrease the administrative burden (Simplification project) of which setting audit thresholds is one:
 - ▶ By EU recommended audit thresholds

	Single company	Group
Net Sales	8,8 M€	29,2 M€
Assets	4,4 M€	14,6 M€
Personnel	50	250

Introduction

- ▶ Most be kept in mind – following the ISA's for SME's will probably increase audit costs with 20 – 30!
 - ▶ Implementing ISA;s, which are more detailed, will require more audit work than required by previous local practises and other local rules
 - ▶ Additionally more time would be spent on improving documentation in planning, testing and making conclusions

Introduction

- ▶ Sweden
 - ▶ EU-recommendation should be adopted
- ▶ Norway
 - ▶ No bigger changes from the current situation
- ▶ Denmark
 - ▶ Doubling up the size of the current thresholds
- ▶ Finland
 - ▶ No recommendation for the moment, when implementing the audit directive, there was a wide discussion of changing thresholds, but the discussion ended up with low thresholds

Impact

- ▶ Sweden
 - ▶ 96 % of current audit clients would fall behind the thresholds giving a saving in costs of 5.800 MSEK
- ▶ Norway
 - ▶ Not applicable – but 69 % of all companies have Net Sales below 5 MNOK
- ▶ Denmark
 - ▶ In 2006 the thresholds were set to be Net Sales 6 M€/assets 3 M€/personnel 25 - so called B-companies standing for 93 % of all companies
 - ▶ In 2007 only 6,45 % of these were for not having audit

Impact

- ▶ Finland
 - ▶ The EU recommendation would lead to the following:
 - ▶ 74.191 companies of 78.007 95% of all companies would fall below the Net Sales threshold
 - ▶ 2.364 companies have personnel more than 50 and Net Sales over the thresholds
 - ▶ 3.174 companies exceed both asset and Net Sales thresholds.
 - ▶ As a conclusion – roughly about 96 % of all companies would be out of scope for mandatory audit

Current role of the auditor in the Nordic countries

Task	Sweden		Norway		Denmark		Finland	
	Outsourced	Inhouse	Outsourced	Inhouse	Outsourced	Inhouse	Outsourced	Inhouse
<i>Core audit</i>								
Processes and internal controls	x	x	x	x	x	x	x	x
Annual Report	x	x	x	x	x	x	x	x
Corporate governance	x	x	x	x	x	x	x	x
<i>Assisting tasks</i>								
Preparing annual reports						x		
Tax returns		x	x	x		x		seldom
Legal documents	x	x	x	x	x	x	x	x
<i>Advising</i>								
Tax		x	x	x		x		x
Accounting		x		x		x		x
Corp. Governance		x		x		x		x
Analyses to the Management		x				x		seldom
<i>Other assurance</i>								
Subsidies	x	x	x	x	x	x	x	x
Statements required by law	x	x	x	x	x	x	x	x
Audit report as assurance for taxation	x	x	x	x	x	x	x	x

Consequences

- ▶ Short run cost savings for companies
- ▶ Decrease in quality of accounting resulting in decreasing confidence in Financial Statements with consequences for financing possibilities
- ▶ Tax losses
- ▶ Increasing risks for unfair treatment of minority shareholders
- ▶ Decreased control of companies where management is different from shareholders

Opportunities

- ▶ Convince companies to continue with voluntary audit
 - ▶ Supported by a strong will to continue with voluntary audit according to different studies made
 - ▶ A stronger demand for delivering value added
- ▶ Review concept or "light audit"
 - ▶ Could be mandatory for certain size of companies
 - ▶ Göran Kjellén will cover this issue
- ▶ Changing concept from audit to compilation/accounting for SME's
 - ▶ High specialist profile with all types of experts