Federation of European Accountants

FACTS

Audit exemption thresholds in Europe

Update after the transposition of the Accounting Directive

INFORMATION PAPER

HIGHLIGHTS

Following the transposition of the Accounting Directive, the Federation of European Accountants shares the updated thresholds defining “small undertakings” in EU Member States, Norway, Switzerland and Iceland.

Consequently, companies identified as “small undertakings” are no longer required to have a statutory audit.

The table published in this paper provides an overview of these thresholds, and also shows the increase in percentage from the previous thresholds.

Current situation - the 2013 Accounting Directive

Article 34 of the 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, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (hereinafter the Accounting Directive) requires an audit for the following categories of companies:

- public-interest entities (broadly, those traded on a regulated market, credit and insurance institutions, and those specifically designated as such by Member States)
- medium-sized and large undertakings

Consequently, those companies defined as “small undertakings” are not explicitly required to have an audit and recital 43 of the Accounting Directive clarifies that this is the intention. Notwithstanding, Member States can impose an audit on small undertakings, albeit the audit should be appropriate for the conditions and needs of these companies and the users of their accounts.

Article 3(2) of the 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 (€):	4,000,000
b)	net turnover (€):	8,000,000
c)	average number of employees during the financial year:	50

These limits are lower than those proposed in October 2011 and, indeed, are slightly lower than those of the 2006 amendment[1]. 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 (€):	6,000,000
b)	net turnover (€):	12,000,000

Member states are additionally allowed to increase or decrease the Euro thresholds by up to 5% to allow conversion into a national currency at a round sum amount.

Member States had until 20 July 2015 to adopt this directive into their national legislation with a view that the provisions first apply to financial statements for financial years beginning on 1 January 2016.

[1] Balance sheet total (€): 4,400,000: Net turnover (€): 8,800,000: Average number of employees during the financial year: 50.

European picture of audit exemptions thresholds' transposition

As the table below shows, only a third of the European countries increased the audit exemption thresholds.

This is a clear sign that the majority of policy-makers across Europe continue to recognize the public interest function of statutory audits and to regard it as an added-value for businesses and the economy as a whole. The audit profession should perceive this as a strong sign of confidence in the important societal role of the audit service.

In the countries where the audit exemption thresholds have been increased, more undertakings 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 perceived. For this purpose, as the Federation recently highlighted in the discussion paper *Pursuing a strategic debate: The future of audit and assurance*[2], it is key to understand and respond to what the stakeholders need.

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 the broad array of other services that meet those needs, as well as to develop new offers as the demands arise. 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.

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

Thresholds applicable for small undertakings in Europe

Audit exemption thresholds in EU Member States, Norway, Switzerland and Iceland (as of 04/2016)

Country		Balance sheet total		Net turnover		Number of employees	
		Threshold (€)	Increase %	Threshold (€)	Increase %	Threshold	Increase %
Austria		5,000,000	3%	10,000,000	3%	50	-
Belgium[3]		4,500,000	23%	9,000,000	23%	50	-
Bulgaria		1,000,000	33%	2,000,000	60%	50	-
Croatia[4]		2,000,000	-	4,000,000	-	25	-
Cyprus[5]		3,400,000	-	7,000,00	-	50	-
Czech Republic		1,500,000	-	3,000,000	-	50	-
Denmark	a[6]	537,000	-	1,075,000	-	12	-
	b[7]	4,837,000	-	9,674,000	-	50	-
Estonia	a[8]	800,000	60%	1,600,000	60%	24	60%
	b[9]	2,000,000	100%	4,000,000	100%	60[10]	100%
Finland		100,000	-	200,000	-	3	-
France[11]	a[12]	1,000,000	-	2,000,000	-	20	-
	b[13]	1,550,000	-	3,100,000	-	50	-
Germany		6,000,000	24%	12,000,000	24%	50	-
Greece[14]		4,000,000	60%	8,000,000	60%	50	-
Hungary		-	-	965,000	44%	50	-
Iceland		1,400,000	-	2,800,000	-	50	-
Ireland[15]		4,400,000	-	8,800,000	-	50	-
Italy[16]		4,400,000	-	8,800,000	-	50	-
Latvia		800,000	100%	1,600,000	100%	50	100%
Lithuania		1,800,000	-	3,500,000	-	50	-
Luxembourg		4,400,000	-	8,800,000	-	50	-
Malta[17]		46,600	-	93,000	-	2	-
Netherlands		6,000,000	36%	12,000,000	36%	50	-
Norway[18]		2,500,000	-	625,000	-	10	-
Poland[19]		2,500,000	-	5,000,000	-	50	-
Portugal[20]		1,500,000	-	3,000,000	-	50	-
Romania		3,650,000	-	7,300,000	-	50	-
Slovakia[21]		1,000,000	-	2,000,000	-	30	-
Slovenia		4,000,000[22]	-9%	8,000,000[23]	-9%	50	-
Spain		2,850,000	-	5,700,000	-	50	-

Country	Balance sheet total		Net turnover		Number of employees	
	Threshold (€)	Increase %	Threshold (€)	Increase %	Threshold	Increase %
Sweden	150,000	-	300,000	-	3	-
Switzerland[24]	18,203,000	-	36,405,000	-	250	-
United Kingdom	6,541,000	56%[25]	13,082,000	57%[26]	50	-

Source: Member Bodies of the Federation of European Accountants
Exchange rates as of end of April 2016

[3] Thresholds are determined on a consolidated basis, which lead to a compulsory statutory audit for small companies currently falling under the thresholds.
[4] Thresholds refer to financial statements in a year preceding the obligation to audit financial statements
[5] No audit exemption threshold for tax purposes.
[6] Above this threshold, there is a choice between extended review or audit.
[7] Above this threshold, statutory audit is required.
[8] Thresholds applicable for a statutory review.
[9] Thresholds applicable for a statutory audit.
[10] The law will be amended in the coming months to reduce the number of employees' threshold to 50.
[11] No audit exemption threshold for SAs and SCAs (*sociétés anonymes et sociétés en commandite par actions*).
[12] 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.
[13] Threshold for SARLs (sociétés à responsabilité limitée) and SNCs (sociétés en nom collectif).
[14] The position of the Institute of Certified Public Accountants of Greece (SOEL) with respect to the thresholds for a statutory audit is that these should have remained the same. Under the current economic circumstances of the country, the number of public and private companies subject to an audit should not have decreased in order to protect the interests of the State, financial institutions, shareholders and other third parties, i.e. users of the financial statements.
[15] The Accounting Directive has not yet been transposed in Ireland and therefore the thresholds have not been updated.
[16] A company that does not exceed the above thresholds is subject to mandatory audit if its share capital is at least the minimum required for a company limited by shares (i.e. €120,000) and if it is (i) a parent company that controls a subsidiary subject to mandatory audit (i.e. a listed company), or (ii) a parent company that must prepare consolidated financial statements.
[17] No audit exemption threshold for tax purposes.
[18] Limited-liability companies exempt from statutory audit if all three limits are not exceeded.
[19] Thresholds are applicable for the twelve months prior to the balance-sheet date and if a company prepares its financial statements under IFRS, the exemption does not apply. The Polish law sets thresholds in Zloty equivalent to a fixed amount in Euro.
[20] No audit exemption threshold for SAs (*sociedades anónimas*).
[21] Thresholds refer to financial statements in a year preceding the obligation to audit financial statements. If two of the three criteria are met, the company has to be audited.
[22] Decrease from €4,400,000.
[23] Decrease from €8,800,000.
[24] 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.
[25] The increase percentage was calculated on the figures in British Pound. The balance sheet total threshold increased from £3,260,000 to £5,100,000.
[26] The increase percentage was calculated on the figures in British Pound. The net turnover threshold increased from £6,500,000 to £10,200,000.

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Federation of European Accountants

WHO WE ARE

FEE represents 50 professional institutes of accountants and auditors from 37 European countries, with a combined membership of over 875,000 professional accountants working in different capacities. As the voice of the European profession, FEE recognises the public interest.

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