



Federation of European Accountants
Fédération des Experts comptables Européens

Factsheet

Standing for trust and integrity



April 2014

EU Directive on Statutory Audits of Annual and Consolidated Accounts and

EU Regulation on Statutory Audit of Public Interest Entities:

Main Provisions relevant for Small and Medium-sized Undertakings

Background

In April 2014, new legislation on audit policy reform was approved which consists of a Directive and a Regulation, namely:

- **A revision of the Statutory Audit Directive (SAD) (2006/43/EC)¹** containing a series of amended and new requirements **applicable to all statutory audits within the European Union (EU)** (hereafter “**the 2014 Directive**”). This Directive will need to be transposed by Member States into their national law within **two years after its entry into force**; and
- **A Regulation² applicable only to statutory audit of Public Interest Entities (PIEs)** (hereafter “**the 2014 Regulation**”). This technically comes into effect 20 days after publication in the Official Journal. Nevertheless, mainly due to the fact that this **Regulation** refers to the **Directive**, there is also a **two-year delay** in the application of most provisions included in the Regulation.

The legislation will be applicable in all European Union (EU) Member States and in the countries of the European Economic Area (EEA), being Iceland, Liechtenstein and Norway.

Small- and Medium-sized Practices³ (SMPs) and Small- and Medium-sized Enterprises (SMEs) are key priorities for FEE and its Members. This Factsheet is focused on the provisions included in the Directive and Regulation that are most relevant for SMEs and SMPs. For general and other provisions, reference is made to the FEE Factsheet on the 2014 Directive and Regulation published on the FEE website⁴.

The definition, size criteria and thresholds for small undertakings and medium-sized undertakings as well as their applicable auditing requirements are included in the 2013 Accounting Directive⁵, for which reference is made to the FEE Factsheet on the June 2013 Accounting Directive.

Provisions of the 2014 Directive and Regulation relevant for SMEs and SMPs

Proportionate application

The **2014 Directive** promotes **proportionate application of its requirements to the scale and complexity of the operations of statutory auditor or audit firm and the audited entity.**

¹ <http://www.europarl.europa.eu/sides/getDoc.do?type=AMD&reference=A7-2013-0171&format=PDF&language=EN&secondRef=066-066>

² <http://www.europarl.europa.eu/sides/getDoc.do?type=AMD&reference=A7-2013-0177&format=PDF&language=EN&secondRef=259-259>

³ Practices whose clients are mostly SMEs, which employ a limited number of professional staff

⁴ http://www.fee.be/images/publications/auditing/Factsheet_Audit_Policy_1404.pdf

⁵ Refer to pages 2 and 6 of this Factsheet accessible at:
http://www.fee.be/images/Factsheet_New_Accounting_Directive_1401.pdf

Simplified requirements optional to Member States

Member States have the option to simplify some requirements of the 2014 Directive for the audits of small undertakings. This 'simplification' can be applied in the following areas:

- **Independence** [2014 Directive, Article 22b (1)] – Every statutory auditor or audit firm needs to consider and document threats to independence before accepting or continuing audit engagement.
- **Internal organisation of statutory auditor or audit firm** [2014 Directive, Article 24a (1)] – Every statutory auditor or audit firm needs to meet a series of new requirements with regard to the internal organisation, including establishment of internal quality control system and a number of policies and procedures.
- **Records keeping** [2014 Directive, Article 24b (7)] – Every statutory auditor or audit firm needs to meet a series of new requirements with regard to the audit work, including requirements on independence, competence, resources, audit quality etc., but it also requires the statutory auditor or audit firm to keep records of all beaches of the provision of the 2014 Directive and 2014 Regulation and also of all complaints made about the performance of the auditor.

Specific provisions for small undertakings and SMEs

Application of ISAs

As in the 2006 SAD, the **2014 Directive** requires every statutory audit within the EU to be performed in accordance with international auditing standards adopted by the European Commission (these standards have until now not been adopted by the European Commission and thus their implementation in Member States is not yet required). When a statutory audit for small undertakings is required, **Member states may take measures to ensure proportionate application to the audits of small undertakings** [2014 Directive, (Article 26 (5))].

Audit committee

The requirements related to the functioning of the audit committee are stated in the **2014 Directive**, but are applicable to PIEs only. However, with respect to PIEs that are SMEs, the function of the audit committee may be performed by an administrative or supervisory body [2014 Directive, Article 39 (2)]. A majority of the members of the audit committee have to be independent of the audited entity; where all members of the audit committee are members of the administrative or supervisory body, Member States may provide an exemption from this requirement [2014 Directive, Article 39 (5)].

Quality assurance

According to the **2014 Directive and Regulation**, every statutory auditor or audit firm shall undergo a quality assurance review (QAR) at least every six years for all entities and every three years for the statutory auditors or audit firms performing an audit of PIEs. It could be more often based on the risk analysis performed. The **2014 Regulation** excludes the auditors of PIEs from the stricter requirement in cases where the PIE audited is an SME, and thus the maximum period between QAR remains six years [2014 Regulation, Article 26 (2)].

Appointment of the auditor

According to the **2014 Regulation**, undertakings with reduced market capitalisation or small and medium-sized PIEs are relieved from the requirement to organise a selection procedure as per the criteria laid down in Article 16 (3) [2014 Regulation, Article 16 (4)].

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About FEE

FEE (Fédération des Experts-comptables Européens – Federation of European Accountants) is an international non-profit organisation based in Brussels that represents 48 institutes of professional accountants and auditors from 36 European countries, including all of the 28 EU member states.

FEE has a combined membership of more than 800.000 professional accountants, working in different capacities in public practice, small and large accountancy firms, businesses of all sizes, government and education – all of whom contribute to a more efficient, transparent and sustainable European economy.