

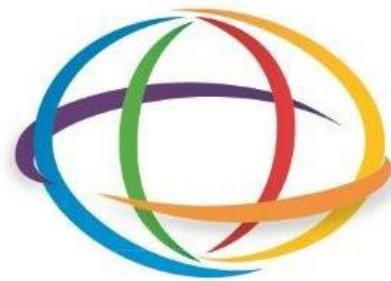
# Audit of SME's

Between opportunity and necessity

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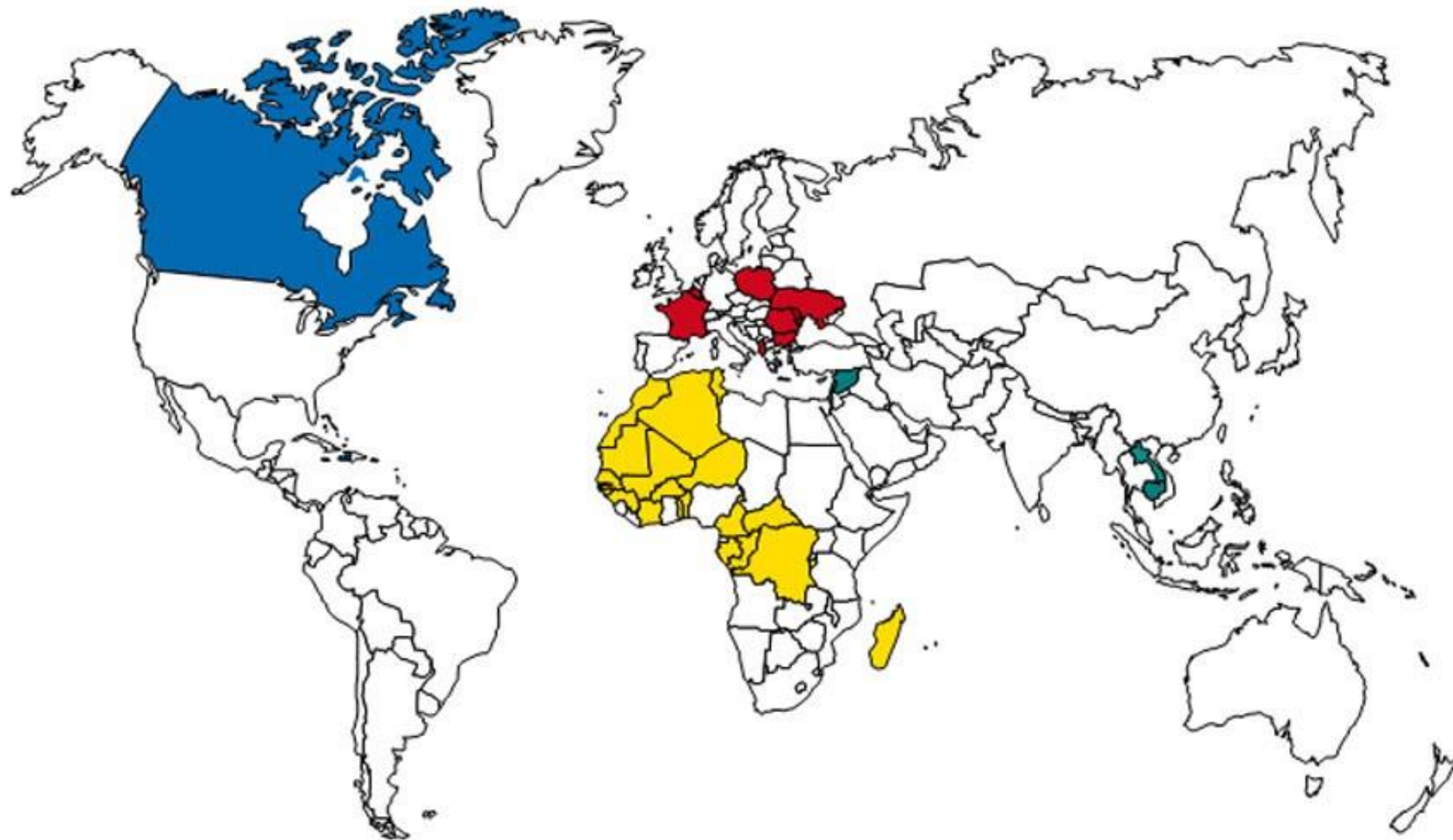
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# Outline

1. European Union position (legislation)
2. Member States reactions
3. Benefits of auditing for SME's
4. Conclusion & some personal thoughts

# 1. European Union Position

- Recital 43 Accounting directive:

## **No obligation ... :**

*“The annual financial statements of small undertakings should not be covered by this audit obligation, as audit can be a significant administrative burden for that category of undertaking, while for many small undertakings the same persons are both shareholders and managers and, therefore, have limited need for third-party assurance on financial statements.”*

## **... however:**

*“(…), this Directive should not prevent Member States from imposing an audit on their small undertakings, taking into account the specific conditions and needs of small undertakings and the users of their financial statements.”*

➔ Small business act 25 June 2008: *“think small first”*

# 1. European Union Position

- What are small undertakings?

Art. 3(2) Accounting Directive:

*“Small undertakings shall be undertakings which on their balance sheet dates 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.*

*Member States may define thresholds exceeding the thresholds in points (a) and (b) of the first subparagraph. However, the thresholds shall not exceed EUR 6 000 000 for the balance sheet total and EUR 12 000 000 for the net turnover.”*

# 1. European Union Position

- Which audit standards must be applied?

International auditing standards:

Issued by IFAC through IAASB:

- ISA's
- ISQC 1
- ...

If they are adopted by the Commission in accordance with art. 26, paragraph 3  
Audit directive

## 2. Member states reactions

- Audit exemption thresholds (Accounting Directive)
  - 5 Countries have increased the thresholds for (statutory) audit exemption (as of 04/2016) to the maximum (balance sheet € 6.000.000 / net turnover € 12.000.000)
    - Germany
    - Ireland
    - Netherlands
    - Switzerland
    - UK
  - 8 countries have adequate thresholds, with the exception of some small needed changes
    - Austria
    - Belgium
    - Denmark
    - Greece
    - Italy
    - Luxembourg
    - Romania
    - Slovenia
  - From 10 countries in 2006, only 4 countries in 2016 have very low audit exemption thresholds
    - Finland
    - Hungary
    - Norway
    - Sweden

## 2. Member states reactions

### Auditing standards

- IAASB/CNCC SMP Working Conference Paris, 26-27 January 2017
  - Nordic Federation of Public Accountants
    - Standard for Audits of Small Entities (SASE)
  - Denmark
    - Extended review: Danish Assurance Standard for SME's
  - France
    - Presentation engagement: Professional Standard in France to provide assurance on financial statements
- Belgium
  - Initiative of the Belgian Minister of Economy for a common project between “Belgian Institute of Chartered Accountants and Tax Advisors” and “Belgian Institute of Auditors” to develop a general standard applicable for assurance engagements for SME's



## 2. Member states reactions

### Auditing standards: Belgium

- PIE's and large entities:
  - Obligation to appoint a member of the Belgian Institute of Auditors as statutory auditor (Français: commissaire) → statutory audit according to ISA's
- SME's:
  - No obligation to perform a statutory audit or to appoint a statutory auditor
    - ➔ assurance engagements exercised by an accountant (member of the Belgian Institute of Certified Accountants and Tax Advisors) or an auditor (member of the Belgian Institute of Auditors) if no statutory auditor is appointed voluntarily
    - ➔ ISA's not applicable → Common project between “Belgian Institute of Chartered Accountants and Tax Advisors” and “Belgian Institute of Auditors” to develop a general standard applicable for assurance engagements for SME's

### 3. Benefits of auditing for SME's

- No legal obligation
- Benefits of a voluntary audit for a SME
  - Independent advice from an external accountant on accounting regulations
  - Benefit from the check on accounting system and records
  - Demand from lenders
    - Information gap between SME and lender could have negative effect on credit rating
  - Merger or acquisition of SME with/by other enterprise

# 3. Benefits of auditing for SME's

Audit according to national auditing standards, procedures or requirements

- Adapted for SME's considering:
  - Informal and limited internal controls
  - Effective segregation of duties not possible
  - Owner managed and no further management layer
  - Weak or no accounting expertise
  - Only few stakeholders (bank/financing, tax authorities, employees)

Audit according to International Standards

- Mostly in an international or multinational context with international stakeholders
  - Demand from international lenders (international banking groups, ...)
  - Acquisition of SME by an international or multinational enterprise
    - Need for comparable standards in an international context
    - Scalability of International Standards to

# 4. Conclusion

- Interesting initiatives concerning audit for SME's
  - Nordic Federation of Public Accountants: SASE
  - Denmark: Extended review
  - France: Presentation Engagement (NP 2300)
  - Belgium: Common project to develop a general standard applicable for assurance engagements for SME's
- Question: Top-down or bottom-up?
- Some personal thoughts

# 4. Conclusion

## Some personal thoughts

- Challenges
  - Attractiveness of audit for SME's: Quality and affordable price
  - Education for SMP's for audit of SME's: experienced Certified accountant and after Auditor (specialisation)
  - Audit standard adapted for SME's: Bottom-up
  - Quality control of audits of SME's: prudence with externalisation of public oversight
  - Control of IT (digitalisation), tax, ...
- Not scare the SME's away from audits because they're a large part of the economy and audit may have many advantages for them



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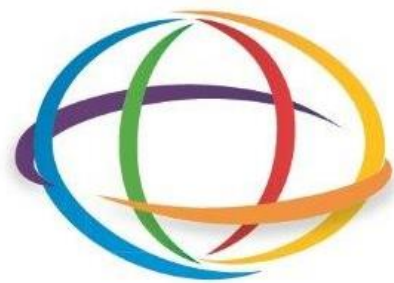
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