



Federation of European Accountants
Fédération des Experts comptables Européens



Jointly hosted event

Audit exemption: how can accountants support small businesses?

Wednesday 19 February 2014 16.00 – 19.00

Stanhope Hotel, rue du Commerce 9, 1000 Brussels

SUMMARY OF DISCUSSIONS

As a profession, it is time to acknowledge that we are on a journey towards demonstrating the relevance of our audit and assurance services to small businesses. That, at least, was one of the conclusions of the moderator of the international debate hosted jointly by FEE and ICAEW on 19 February 2014 in Brussels. Panellists and speakers from five different countries met to share their thoughts on how accountants can best support small businesses.

Background

By far the majority of businesses around the world – and certainly in Europe – are small regardless of how that term is defined. In recent years, there has been an international trend towards making audit optional for small businesses, most recently expressed in the 2013 EU Accounting Directive where Member States have the option to increase two of the thresholds for small undertakings up to a maximum €12 million turnover and €6 million in net assets (default thresholds are €8m turnover and €4m in net assets)¹.

Introduction

PETR KRIZ, FEE Deputy President, welcomed the participants by setting the objective of the event. The theme of the discussion was focused on the profession's need to make use of its expertise and unique skill set in developing approaches that better meet stakeholders' needs. Market-, demand- or customer-driven innovation is crucial if we want to find sustainable solutions.

Petr Kriz passed over to **MYLES THOMPSON**, FEE board member and Chair of the FEE auditing working party, to moderate the discussion.



¹ To meet this definition of a small undertaking, businesses must meet two out of three thresholds. The third threshold, 50 or fewer employees, is unchanged.

Keynote Speakers



When audit is optional rather than mandatory, the door is open for alternative services. **ARNOLD SCHILDER**, IAASB Chairman, talked the room through the range of international technical standards that support not only audit, review, and compilation services, but the development of new assurance standards. He gave some insight into the added value of each of these types of services and also made reference to his personal experience whereby other stakeholders, such as banks or investors, are mostly interested in seeing the signature of a professional.

International Standard for Review Engagements (ISRE) 2400 leads to a limited assurance conclusion, with a report on the financial statements which is communicated with a clear view on the users of the report. Recent revisions emphasise the importance of communication. While a review conclusion is different from an audit, and is phrased using negative terms, it can still be perceived as a positive outcome. After all, if a doctor were to say 'based on my examination, I have found no indication that there is anything wrong with your health', that would be a positive outcome.

International Standard for Assurance Engagements (ISAE) 3000 is the umbrella assurance standard which will become increasingly relevant if there is a wider demand for assurance other than review or audit. The 2013 revisions have:

- applied clarity conventions,
- strengthened the requirements, with supporting application material,
- displayed the difference between reasonable and limited assurance side by side in a column format, and
- recognised that limited assurance can cover a range of engagements, specifying that these must to be meaningful to users.

International Standard for Related Services (ISRS) 4410 is the compilation standard for accounts preparation, which IAASB does not see as providing assurance. People might take assurance from a compilation engagement / report, but the accountant does not perform procedures to obtain assurance over the information. Responsibility for the reliability of the accounts prepared remains with management.



ANDREAS NOODT, representing the Small and Medium Practices Committee of IFAC, spoke further about the application of ISRE 2400 and the use of review engagements. Without any past experience to draw on, it is not always easy for stakeholders in jurisdictions with a history of universal audit to understand what a review engagement might be. It is important to take advantage of every opportunity to clarify what is involved and when a review opinion would be appropriate. In Germany, for example, practitioners often offer a compilation service supplemented by review-type procedures to obtain limited assurance on the

underlying information. In such engagements, the compilation report is expanded to explain the engagement. German practitioners also perform reviews of financial statements when the entity has prepared its own financial statements but needs independent assurance expertise.

Review engagements increase credibility for banks and investors, enhance confidence for shareholders and management, and help businesses plan for success.

The IFAC SMP Committee have developed a **Guide to Review Engagements**. The highlights of the guide are:

- professional scepticism,
- an emphasis on professional judgement (not checklists, though there are some in the guide as they are needed for efficiency),
- additional procedures, that is, when they are required and when not (if a practitioner is not fully confident, too much work might be performed, and the challenge for a professional review is to stop at the right point), and
- documentation examples (often the most important and difficult part).

ROBERT HODGKINSON, Executive Director at ICAEW, expanded the discussion from the technical services that accountants can offer to consider the broader role of the accountancy profession in the modern economy. Accountants are not used to spelling out the benefits of audit and assurance, and now must learn how to relate our services to business needs.

The idea of selling non-audit services makes accountants uncomfortable: in the past, it has been seen primarily as a risk to the independence of the auditor. Without universal audit, however, the situation has changed. Now we need to be really convinced that what we do has value for businesses.

Three observations:

1. Professional bodies have a crucial role to play in this journey, helping accountants to get together and learn from one another.
2. Accountants need to be less concerned with defining specific products, and should evolve more towards practice, ways of behaving, serving people, and meeting needs – rather than just delivering what is mandated by law.
3. In every country, accountants and accountancy bodies need to start taking practical steps on this journey. ICAEW has done so by preparing a series of leaflets, the **Assurance Options**, to help accountants discuss these services with businesses in non-technical language.

Responses to three anticipated challenges:

1. The profession could focus instead on achieving regulatory solutions, and stemming the tide of deregulation. There is certainly work to be done in this area, but we must also act on the world as it is. Relying on a regulator means relying on an external solution, and we will be more resilient as a profession if we respond to challenges by developing our own solutions.
2. Accountants should also consider new areas such as integrated reporting, sustainability, technology. It can be taken for granted that we will be doing this, but unless we have basic confidence in the value of what we do, people will not want our services.
3. We might fail at the journey, but that is what makes it meaningful. The accountancy profession might become irrelevant if statutory audit is taken away, and there is no guarantee that we will be successful in adapting. Think of the medieval guilds (weavers, fullers, smiths) whose work has gone. Equally, however, there are opportunities for the profession to flourish.



Panel Debate

Small businesses are not interested in our technical debates, as **GERHARD HUEMER** of the European Association of Craft, Small and Medium-sized Enterprises (UEAPME) explained. They do not need to understand how the engagement works, but they do need to be confident that it will be meaningful to those in a position to extend finance, such as banks and investors.

This journey is an interesting one, and it may lead to a better situation for helping SMEs. It used to be that they saw an auditor once a year and hoped the auditor didn't find anything – in the future perhaps they will work together with the auditor to improve the business.

MORTON SPEITZER, President of the Danish Institute FSR, shared the experience of the Danish profession of working with the government and with banks to adapt and apply the internationally recognised review engagement in Denmark. When the original exemption from audit was followed by some spectacular business failures, politicians and lenders understood the need for assurance. However, this group would not accept a limited assurance conclusion, which is why the extended review in Denmark was developed.

The 2013 calendar year is the first year of the extended review service and its implementation is being pushed hard. It is not yet clear what the impact will be.

A different perspective was shared by **JAN WIETSMA**, a business consultant from the Netherlands whose imagined day in the life of a future accountant takes in technological change, behaviour, and attributes². To him, in a near future, the administrative work performed by accountants would be close to zero while their consultative roles would be more and more strategic for small businesses. Today, the cost of new services is seen as high, and the added value is not yet perceived by SMEs.

A test is currently being explored in the Netherlands with bankers, the tax authorities, and the Ministry of Economic Affairs to investigate the future for SMEs and what might be of value. It is likely that this will be more advisory about big data, finance and taxes rather than a strong role for giving assurance.

In Germany, by contrast, a history of smaller companies being exempt from audit has led to innovative development of compilation services. **MICHAEL GEWEHR**, Member of the Auditing division of the auditing and accounting board of the German Institute IDW and Chair of the IDW's Subcommittee on assurance services, explained that German practitioners offer three different kinds of compilation engagement, from compilation pure and simple, where the practitioner does not obtain assurance, to compilation with some analytical procedures and inquiry on the underlying

² Jan Wietsma's vision of Klaas Ruiters in 2017 can be found online at: <http://www.accountancynieuws.nl/actueel/branche/deel-1-een-dag-uit-het-leven-van-klaas-ruiter.124330.lynkx>

information so as to obtain limited assurance thereon, to compilation combined with audit-style substantive procedures whereby the practitioner obtains reasonable assurance on the information underlying the financial statements.

There is a long history of these alternative services, and they are offered not just by auditors but also by tax practitioners. SMEs in Germany have found value in the work that these accountants provide. Investors and creditors require reliable financial information, and businesses see a need for credible financial statements.

Debate themes

The wide range of perspectives, and the challenging statements made by some of the panellists and speakers, gave rise to a lively debate.

The idea of selling our services, particularly non-audit services, is enough to make accountants profoundly uneasy. Yet skill at understanding and meeting business needs is essential as long as the profession does not forget the ethical principles that are part of its distinguishing mark. Ethical selling is based on good, attentive listening and 'auditor' is, after all, derived from 'audire', Latin for 'to listen'. When services are not mandatory, this skill becomes vital to an accountant's ability to add value for businesses.

Conclusion

The different services offered in different countries suggest that there is no obvious solution to the questions raised by exemption from mandatory audit. Deregulation and disruptive technology are changing the way accountants do business, and we cannot ignore those changes. Learning from the approaches taken across the world will help us understand where we should go next, as will engagement with banks and investors, with members, and with small businesses themselves.