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BUSINESS ENGLISH

Small undertakings

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The European Parliament voted through the new Accounting Directive in June 2013, which *inter alia* has simplified the accounting regime for small businesses.

One implication that has not been so widely discussed is that the Accounting Directive expands the range of businesses that can be described as small. The key section is Article 3 (2), which now reads:

1. **Small undertakings** [1] shall be undertakings which on their **balance sheet dates** [2] do not exceed the limits of two of the three following criteria:

(a) **balance sheet total** [3]: EUR *4 000 000;*

(b) **net turnover** [4]: EUR *8 000 000;*

(c) average number of employees during the financial year: 50

Member States may define **thresholds** [5] exceeding the thresholds in points (a) and (b) of this paragraph. However, those thresholds shall not exceed EUR 6 000 000 for the balance sheet total and EUR 12 000 000 for the net turnover.
That final paragraph is new, and it significantly increases the size of businesses that EU Member States can define as small - and thus exempt from **audit** [6].

EU member states have two years to implement the Directive, and any decision to take up an optional permission such as establishing higher balance sheet totals or net rurnover will probably require consultation and discussion. There will be no sudden overnight changes. However, within the limits of the EU regime, the UK Government can now choose to redefine a small company and thereby raise the audit exemption threshold by a significant amount.

In recent history we have seen an eagerness in **Whitehall** [7] to push deregulation as far as possible in the SME (small and medium-sized enterprise) market. No doubt some will welcome this opportunity to remove the statutory obligation of **audit** [8].

Deregulation, however, has its dangers. Research has found that, among small companies in the UK, audited accounts are approximately half as likely as unaudited accounts to contain errors. At a time when SMEs are struggling to raise finance, confidence in small company financial statements is critical.

Audit exempt organisations face a range of options. For small charities, the Charities Commission has long established an alternative assurance **report** [9] in the form of the Independent Examination. This provides a less intensive engagement than an audit, but helps maintain the crucial confidence factor. In jurisdictions around the world, legislators have begun to introduce similar **light touch** [10] assurance reports as a **statutory requirement** [11] for audit exempt companies. Whether a statutory alternative to audit is introduced or not, it remains the duty of chartered accountants to make sure that the market is informed about the options. This includes both the benefit of audit and the availability of alternatives.

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[1] *Imprese*

[2] *data di chiusura del bilancio*

[3] *totale dello stato patrimoniale*

[4] *ricavi netti delle vendite e delle prestazioni*

[5] *soglie*

[6] *revisione contabile*

[7] *esempio di metonimia: Whitehall è il quartiere di Londra sede dei principali Ministeri del governo britannico.*

[8] *revisione obbligatoria prevista dalla legge*

[9] *assurance report: revisione contabile facoltativa per società non sottoposte all'obbligo di revisione*

[10] *"Light touch" qui rende l'idea che la revisione è semplice, efficace e economica. La Direttiva 2013/34/UE rende 'assurance reports' con 'rassicurazioni sul bilancio'.*

[11] *'Statutory requirement'*, ossia *un obbligo di legge. 'Statute law' è la legge approvata dal parlamento britannico. La Direttiva 2013/34/UE rende 'statutory audit' con 'revisione legale'.*

COMPREHENSION QUESTIONS

1. Which of the three titles (a-c) do you think is the most appropriate?

a. Simplifications ahead for small firms

b. The advantages of audit

c. Possible impact for Accountants of the new EU Accounting Directive

2. What is the significance of the figure '€ 4 million'?

a. the balance sheet threshold for being considered a small firm

b. the net turnover threshold to be considered a small firm

c. the number of small undertakings in the European Union

3. What is the difference between 'assurance' and 'audit'?

a. audits are compulsory whilst assurance reports are not

b. assurance reports are compulsory whilst audits are not

c. there is no difference

4. 'No doubt some will welcome this opportunity to remove the statutory obligation of audit'. Who and why?

a. accountants, because it will reduce their work load

b. small undertakings, because it will reduce their costs

c. governments, because it will increase cross-border harmonisation

5. According to the text, audit exemption presents one risk. What is it?

a. many small undertakings will move outside the EU

b. many undertakings will have an incentive to remain small

c. unaudited accounts are more likely to contain errors

ANSWERS

1. C
2. A
3. A
4. B
5. C