

Worth knowing about

The Danish Business Authority's assurance standard for small enterprises

Small Danish enterprises have the option to subject their financial statements to an extended review by an auditor in accordance with a special assurance standard. The purpose of this standard is to ensure a reasonable balance between government's intention to make it easier to do business and to maintain a reasonable control, quality and integrity of the information that flows from the enterprises to business partners, lenders and authorities. This assurance standard has been adopted to create a service provided by the auditor that is better suited for the SMEs in Denmark.

Conditions for using the special assurance standard

Basically, all enterprises in reporting class B can use the set of rules if the enterprise does not, at the balance sheet date and for a period of two consecutive financial years, exceed two of the following three limits:

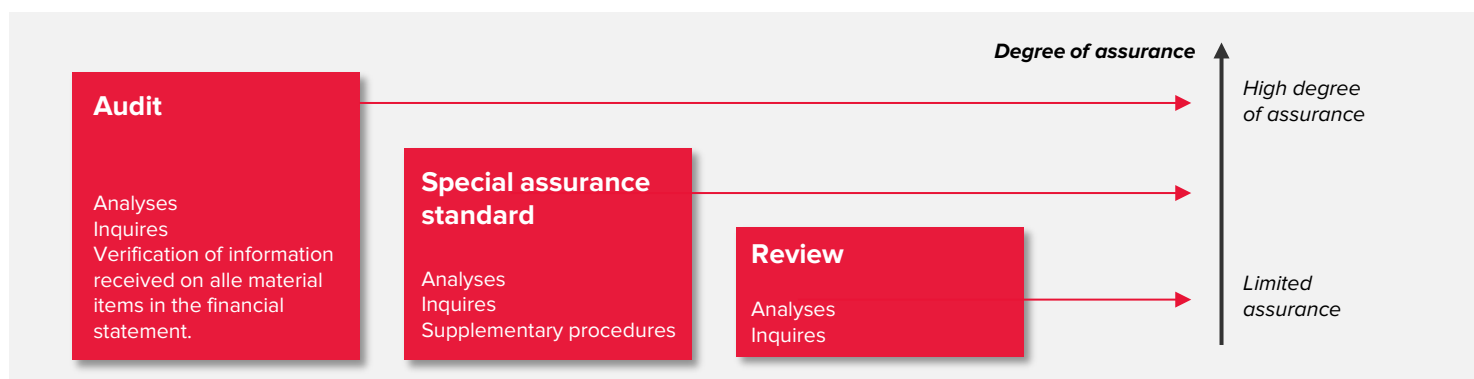
- A balance sheet total of DKK 55 million.
- Net revenue of DKK 111 million.
- An average of 50 full-time employees during the financial year.

Holding companies in reporting class B may also use the special assurance standard.

It must be resolved by an annual general meeting that the special assurance standard is to be used, and it will apply solely for future financial years. As use of the special assurance standard is still considered audit in the eyes of the law, it will not be necessary to change the articles of association or the information in the register of companies.

What kind of work is to be performed according to the special assurance standard?

The work performed by the auditor will not be an audit in the form where the auditor performs, for example, physical inventory examination. It will instead be work that is tailored to the requirements of SMEs and ISRE 2400. The auditor will primarily ensure, by means of analyses and inquiries, that the financial statements are free from material misstatement.



In addition to inquiries and analyses, there will be supplementary procedures. Those procedures will include external information on a few specific matters:

- Extracts from the Land Registry and the Registry of Persons and Motor Vehicles.
- Bank letters confirming engagements with banks
- Inquiry of the enterprise's attorney of potential disputes, lawsuits and litigation.
- Verification that the reporting to the tax authorities withheld at source, labour market contributions, payroll tax and VAT is in accordance with the bookkeeping records.

If any matters come to the attention of the auditor during his work which may result in material misstatement of the financial statements, the auditor has a duty to investigate those matters for the purpose of proving or disproving that the financial statements are free from material misstatement.

Auditor's reporting

The auditor issues a report on the financial statements stating that the auditor has reviewed the financial statements according to the special assurance standard, and the auditor will confirm positively that the financial statements give a true and fair view in accordance with the Danish Financial Statements Act.

If the auditor has any comments in relation to the financial statements, the comments may, in the same way as for an audit today, be included as a qualification or an emphasis of matter paragraph.

It will not be required to prepare a long-form audit report. In some situations, written communication between the auditor and the enterprise will be required, and this may be in the form of mails, management letters or memos to the enterprise.

Perspectives of the special assurance standard

Many enterprises have chosen the assurance standard, and it is widely used.

However, the enterprises must note that lenders, for example banks, may be interested in whether audit is performed or whether a review is performed according to the special assurance standard. In key areas of the financial statements, such as inventories and trade receivables, an audit will include physical control of the inventory and external confirmations obtained from customers. The assurance provided by those audit procedures will often be important for some banks when they are to provide loan facilities to the enterprises.

BDO are of the opinion that the special assurance standard is a good alternative for many SME's, but that audit will remain the best choice for some enterprises. We have listed the issues that the enterprise should consider before choosing between audit and review according to the special assurance standard.

In favour of maintaining audit	In favour of review according to the special assurance standard
Companies with considerable bank loans and other credits	Companies not having considerable liabilities or companies that are self-financed
Companies where suppliers evaluate the company or the company is credit-insured	Companies not having other external interested parties that make material evaluations
Several owners/professional board of directors	Principal shareholder companies/identity between board of directors and board of executives
Complex accounting areas with many estimates - for example contractors with a considerable amount of work in progress	Simple companies not having complex accounting issues
Companies, which plan a sale or plan to obtain capital in the near future	Companies, which do not expect additional capital contributions or raising of loans to any material extent
If audit is required by owners/parent company	If audit is not important
Weak internal controls and no monitoring by management and owners	Principal shareholders, who monitor all matters of importance in the company.