

WORTH KNOWING

Audit Exemption



Companies subject to reporting class B of the Danish Financial Statements Act can avail of audit exemption.

However, the companies continue to have to prepare and submit financial statements to the Danish Business Authority according to the rules of the Danish Financial Statements Act. Audit exemption is possible only for coming financial statements. Consequently, past reporting periods cannot be exempt from the statutory audit.

Qualifying conditions

Companies subject to reporting class B of the Danish Financial Statements Act can avail of the audit exemption if the company for two successive reporting years at its balance sheet date does not exceed two of the following three thresholds:

- A balance sheet total of DKK 4 million
- Net revenue of DKK 8 million
- An average of 12 full-time employees during the reporting year.

The audit exemption does not apply to commercial foundations and employee investment companies, notwithstanding they meet the criteria.

Net revenue must be combined with financial income and income from investing activities if they are of minimum the same size as the net revenue.

The availability of audit exemption is lost if the company, an affiliate or the sole proprietor of the company accepts a fixed-penalty notice or as a party to a criminal case is found guilty of breach of company law, accounting legislation or tax and duties legislation. In such cases the company's financial statements for the subsequent reporting year must be audited. The Danish Business Authority may extend the period of audit of the company's financial statements by up to three reporting years.

Similarly, the Danish Business Authority may decide that a company will not be exempt from audit if a control shows material misstatement of the company's financial statements.

Special note on holding companies

Holding companies owning equity investments in subsidiaries or associated enterprises are to use the calculation rules applying to statutory audit of consolidated financial statements when assessing if they can avail of audit exemption. This means that a holding company in relation to the thresholds for balance sheet total, net revenue and average number of employees is to be taken as a whole including subsidiaries and associated enterprises.

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Holding companies also qualify for audit exemption.

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The holding company may use one of the following calculation methods:

Method 1

According to this method, the holding company's figures are combined with those of the equity investments and intercompany transactions are eliminated in full and equity investments are offset in the balance sheet total. The figures are compared with the thresholds to measure if statutory audit is required.

Method 2

According to this method, the holding company's figures are combined directly with those of the equity investments, and intercompany transactions are not eliminated and equity investments are not set off. However, the thresholds for net revenue and balance sheet total are increased by 20 per cent. The combined figures for net revenue and balance sheet total are measured against thresholds, which are increased by 20 per cent.

It should be noted that the calculation does not take a proportional ownership share into account. In case of a subsidiary or an associated enterprise, in which the ownership is for example 90 per cent or 25 per cent of the capital, it will still be 100 per cent of revenue, balance sheet total and number of employees that has to be included in the calculation basis.

Audit exemption for existing companies

Audit exemption can only be resolved at the annual general meeting as the information on exemption must be disclosed in the management's statement and in the event that the management's statement has been deselected it must be disclosed in the management's review in the financial statements previous to the deselection.

Example:

A company closes its accounts on 31 December and complies with the conditions for audit exemption. If the company wishes to opt out of the audit of the financial statements for 2017, it must be disclosed in the management's statement in the annual report for 2016 that it desires to be exempt from audit. Consequently, the decision to opt out will be taken at the annual general meeting in the spring of 2017.

If the articles of association contain provisions concerning audit, the articles of association must also be amended to reflect that the provisions on statutory audit and appointment of auditor are deleted.

The management of the company must report the audit exemption to the Danish Central Business Register, and the minutes of the General Meeting and new articles of association, if relevant, must be submitted to the Danish Business Authority. The auditor must at the same time be deleted in the Danish Business Authority, even if the auditor continues to provide other consulting and assistance services.

Management's statement in the annual report

It must be stated in the management's statement that the company desires to opt out of audit. The following wording may be used:

"At the General Meeting on 15 March 2017 it is recommended that the financial statements for 2017 should not be audited. The board of directors and board of executives consider the conditions for audit exemption to be fulfilled."

When audit exemption has been resolved the management must in subsequent years declare in the management's statement that they consider the conditions for audit exemption to be fulfilled.

If a management's statement is not prepared, the information must be given in the management's review.



Newly established companies

A newly established company may opt out of audit of the financial statements if it is expected that the company will not exceed two of the above three thresholds. The company's first reporting period will typically be shorter or longer than 12 months, and it is therefore important to convert the net revenue to reflect 12 months net revenue.

Audit exemption must be shown in the memorandum of association, and the company's articles of association must not contain any provisions concerning statutory audit and appointment of auditor.

The exemption will be registered with the Danish Business Authority when the new company is registered.

Should the company contrary to expectations exceed the thresholds, the financial statements must be audited, notwithstanding that the memorandum of association shows exemption from audit.

If the company believes that it is very likely that it will become subject to statutory audit in year 2, which is not rarely seen in the early start-up phase, it should be considered if the company desires to be audited from year 1 as the audit may be more difficult and more cost-intensive in year 2 as this requires an audit of the opening balance sheet. This can be avoided by an audit of the financial statements as from year 1.

The company's stakeholders

Finally, it is noted that companies, which - according to the Danish Financial Statements Act - can avail of audit exemption, must consider whether the company's stakeholders will assess the company differently if the company's financial statements are no longer audited. The parties may be customers, suppliers, credit institutions and banks, who would not obtain the same value from unaudited financial statements as from audited financial statements. This may affect the periods of credit, loan terms, etc. obtainable by a company.

Alternative to audit exemption

Instead of complete audit exemption we would like to draw attention to the assurance standard issued by the Danish Business Authority, which can be used by all companies subject to reporting class B. When the auditor performs his work according to this standard, it gives the auditor the possibility of stating that the financial statements are free from material misstatement, but not with the same high degree of assurance that a full audit according to the international accountings standards would give.

We refer to separate Worth Knowing - The Danish Business Authority's Assurance Standard for Small Enterprises.

Questions

If you have any questions regarding the best solution for your company or situation, please do not hesitate to contact us for further consultation.



FOR FURTHER INFORMATION

If you need further information or have any questions please do not hesitate to contact your local BDO office.



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