

Introduction to the new Authorised Public Accountants Act to non-auditors

Let me begin first with congratulating all the auditors, year 2010 bears a special meaning. This year **20 years passed from the start of auditing activities** in Estonia and on March 8th the long awaited new **Authorised Public Accountants Act** entered into force, which is in compliance with the European Union Directive 2006/43/EC. The act regulates the legal bases for the professional activities of auditors, determines the requirements for auditors, internal auditors and audit companies and supervision. However, let us not keep the focus on the activities of auditors, but look at what the new Authorised Public Accountants Act will bring along for company managers and accountants.

Firstly the official title. When the previous act gave us a definition for an auditor, then according to the new act, we have **sworn auditors**. Sworn auditor's certificate is given by the decision of the Minister of Finance to a person, who has passed the exam and has taken the oath. After the oath has been given, note is entered into the registry proving the certificate of sworn auditor. Registry of auditors is provided in the homepage of Board of Auditors (www.audiiitorkogu.ee) and as of March 9th 363 sworn auditors have been entered into the registry.

A sworn auditor can provide professional services only through **firm of auditors** (through a company of auditors or as a self-employed person). 189 firms of auditors are registered in Estonia.

Audit is defined as **auditor's services to provide assurance**, provided in accordance with auditing standards. The audit object is financial information and as a result, sworn auditor issues an **affirmative opinion**. This is the opinion, which confirms that the financial statement present fairly, in all material aspects, the financial position, financial performance and cash flows.

The act provides special auditing requirements for public interest entities (incl. rotation requirement after every 7 years).

Auditing requirement limits were transferred from the Accounting Act to the Authorised Public Accountants Act and the limits have risen considerably. The limits are provided in euros, probably due to the hope of taking the euro into use in the next year. Audit is compulsory for all public limited companies, state accounting entities, local governments, legal persons governed by public law, foundations and political parties receiving state budget funds. For entities not mentioned above, a rule applies, which states that for financial statements with the beginning period later than **1 January 2010** audit of financial statements is compulsory, if two of the indicators in the following table are higher than the conditions provided in the second column or if at least one of the indicators provided in the third column applies.

Audit is compulsory if	at least two indicators are higher than	at least one indicator is higher than
Sales revenue or other income	2,000,000 euros (31.3 mil. kroons)	6,000,000 euros (93.9 mil. kroons)
Assets as of the balance sheet date	1,000,000 euros (15.6 mil. kroons)	3,000,000 euros (46.9 mil. kroons)
Average number of employees	30 employees	90 employees

Therefore if your balance sheet includes an immovable valued over 50 million kroons, no employees nor sales revenue, then the financial statements still must be audited.

Auditi n.ö. väiksem vend on **review**. It is also auditor's service to provide assurance and the object is financial information, but the **report is issued in negative format**. This means that less control procedures have been performed and as a result of the work done, the auditor confirms not finding any material misstatement in the financial statements. The review limits are provided in the following table.

Review is compulsory if	at least two indicators are higher than	at least one indicator is higher than
Sales revenue or other income	1,000,000 euros (15.6 mil kroons)	3,000,000 euros (46.9 mil kroons)
Assets as of the balance sheet date	500,000 euros (7.8 mil. kroons)	1,500,000 euros (23.4 mil kroons)
Average number of employees	15 employees	45 employees

From the table we can see that the review limit now is higher than the audit limit of the previous act (reminder: so far the limit was two indicators out of three : turnover 10 million kroons, assets 5 million kroons and 10 employees). Review can be replaced with an audit and of course, voluntary audit is always a possibility.

The new act also unambiguously states that during the audit or review, an auditor must also check the conformity of monetary and other information with the legislation and accounting together with the financial statements. Therefore, we can no longer dispute over whether the management report is an object of auditing or not.

In order to provide audit services, **a written contract must be concluded**, where the audit object, approximate time expenditure in hours, report signer and the cost of services and payment details are provided. In the case of consolidation group, the group auditor and the signer of intermediate audit of the consolidated entity, must be added into the contract.

A sworn auditor representing the firm of auditors in accordance with legislation **signs** client contract and the reports of sworn auditor. Pursuant to legislation a firm of auditors is usually represented by a member of the management board, therefore the member of the management board signs the client contract and auditor's report. Before the report of sworn auditor, all members of the client's management board shall confirm the management's responsibilities.

For the purchaser of audit services, it is perhaps also important to know for assurance that a firm of auditors bears proprietary liability for any direct monetary loss wrongfully caused to client or third persons by professional activities. Upper limit of the liability is tenfold client contract fee. In case of serious negligence or intentional damage, upper limit is not applicable. The period of limitation for any claims is 5 years from the date of the sworn auditor's report.

In order to ensure the payment of monetary liabilities, the firm of auditors is obligated to have professional liability insurance contract and the insurance amounts depend on the client contract fees.

I would like to draw attention also to the fact that often people confuse the **selection of auditor** and appointment of auditor upon entering the financial statements into the taxonomy.

An auditor is chosen by shareholders and the data of auditor shall be entered into the registry with an entry application. Auditor's approval is added to the application (in case of expedited procedure it is done digitally).

If as of March 7th the signed auditor's report had not been entered into the portal, then the sworn auditor must be interconnected with the company, since the connections valid so far became invalid after the new Authorised Public Accountants Act entered into force.

In the company registration portal the member of the management board must first choose a firm of auditors and then a name of sworn auditor. Any sworn auditor in the registry can be appointed as auditor of the company, but only the person with right of representation i.e. member of the management board has the signing right. Therefore, when choosing an auditor in the portal, bear in mind that the person has a right to sign.

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