EUROPEAN FEDERATION OF ACCOUNTANTS AND AUDITORS FOR SMES

EVIDENCE ON THE VALUE OF AUDIT FOR SMES IN EUROPE

PERSPECTIVES OF OWNER-MANAGERS, COMPANY ACCOUNTANTS AND DIRECTORS

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HIGHLIGHTS

Small and medium-sized entities (SMEs) account for the vast majority of companies and the majority of private sector Gross Domestic product (GDP) and consequently are vital to the EU economy and society. Audit can foster trust and confidence in SMEs by reinforcing the reliability of their published financial statements. For many years, however, audits of SMEs have been steadily declining in number across Europe. The European Commission has repeatedly raised audit thresholds and Member States have increasingly introduced, or modified, exemptions from statutory audits aligned with these higher thresholds. This report examines the evidence on the perceived value of audit for SMEs in Europe. This evidence comprises a survey of SMEs on their views on the benefits of audits and other recently published surveys and reports. The respondent sample is, however, somewhat unrepresentative and consequently care needs to be taken when interpreting the survey findings.

The key survey finding is that the top three most commonly cited benefits from having an audit were 'audit provides a check on accounting systems and records', 'auditor provides useful advice to management' and 'improves internal control', significantly ahead of 'gives assurance to external providers of finance'. This finding and other evidence suggests that SMEs perceive the audit to have various benefits, benefits that go beyond the central purpose of the audit of providing assurance on published financial information.

The evidence has potentially significant implications for regulators and policy makers, standard setters and the profession including especially auditors. For the European Commission (EC) and national regulators the evidence may imply they have gone too far in exempting small companies from having to have an audit and raising thresholds as part of reducing regulatory burden on SMEs. Regulators might wish to reassess the existence and extent of audit thresholds given potential risks to the economy and the public interest. The setting of thresholds deserves a thorough and robust evaluation of both costs and benefits of audits for SMEs. And finally, if SMEs have a strong desire to receive advice from the auditor as part of the audit then this may ultimately demand that auditing and ethical standards be modified to clarify and allow for auditors of SMEs to render certain types of advice during the ordinary course of the audit engagement.

BACKGROUND

Accounting Directive

In their information paper 'Audit exemption thresholds in Europe' Accountancy Europe provide a useful summary of the relevant EU regulation. Article 34 of the Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (hereinafter the Accounting Directive) requires an audit for the following categories of companies:

- public-interest entities (broadly, those traded on a regulated market, credit and insurance institutions, and those specifically designated as such by Member States); and
- medium-sized and large undertakings.

Consequently, those companies defined as "small undertakings" are not explicitly required to have an audit and recital 43 of the Accounting Directive clarifies that this is the intention. Notwithstanding, Member States can impose an audit on small undertakings, albeit the audit should be appropriate for the conditions and needs of these companies and the users of their financial statements. Article 3(2) of the Accounting Directive defines "small undertakings" as those which, on their balance sheet date for two consecutive years, do not exceed the limits of at least two of the three following criteria:

a) balance sheet total: EUR 4 000 000;
b) net turnover: EUR 8 000 000; and
c) average number of employees during the financial year: 50.

Member States are permitted to increase the thresholds for a) and b) to a level not exceeding:

a) balance sheet total: EUR 6 000 000; and
b) net turnover: EUR 12 000 000.

Member States are additionally allowed to increase or decrease the Euro thresholds by up to 5% to allow conversion into a national currency at a round sum amount. Member States had until 20 July 2015 to adopt this directive into their national legislation with a view that the provisions first apply to financial statements for financial years beginning on 1 January 2016.

Audit Exemption Thresholds' Transposition

In February 2019 Accountancy Europe presented the European picture of audit exemption thresholds' transposition in its information paper 'Audit exemption thresholds in Europe – 2019 update'. While the longer-term trend is for audit exemption thresholds to rise, and Member States increasingly to align with them, since 2016 there has been no clear trend up or down. This has a significant impact on the accounting profession and their SME clients. For example, France is about to increase substantially thresholds (the financial size criteria will quadruple). Professor Alain Burlaud, Conservatoire National des Arts et Métiers (CNAM) estimates that the consequences of the imminent increase in the audit exemption threshold will result in 153 000 SMEs no longer being required to have a statutory audit, 8 000 to 10 000 SMP employees losing their jobs and 500 statutory auditors losing 70 to 100% of their revenue. Moreover, the change is sudden and as such offers little opportunity for French SMPs to adapt to offering different services.

Benefits of Audit for SMEs.

According to the International Standards on Auditing the objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. In so doing an audit provides assurance to shareholders that the figures in the financial statements show a true and fair view or are fairly presented. Other users of financial statements - employees, customers, suppliers, loan creditors, and tax authorities – also obtain assurance as to the reliability of the information. Reliability builds credibility and fosters trust and confidence in these entities. there are, however, many other potential benefits including the following:

- helps to identify weaknesses in the accounting systems and enables the auditor to suggest improvements;
- assures directors not involved in the accounting functions on a day-to-day basis that the business is running in accordance with the information they are receiving and helps reduce the scope for fraud and poor accounting;

- facilitates the provision of advice that can have real financial benefits for a business, including how the business is running, what margins can be expected and how these can be achieved. advice can cover anything from the tightening of internal controls to reducing the risk of fraud or tax planning;
- enhances the credibility and reliability of the figures being submitted to prospective purchasers;
- protects or improves credit ratings. banks and trade suppliers may rely in part on credit rating agencies' assessment of the company and will look more favourably on companies that have an audit;
- provides insurance loss adjusters with reliable data for claims;
- indicates the entity's ability to continue as a going concern;
- helps ensure appropriate disclosures; and
- gives assurance on the entity's ability to manage risk.

OBJECTIVES

This report looks at the evidence on the perceived value of audit for SMEs in Europe in particular, the findings from this EFAA survey. It was conducted in collaboration with EFAA member bodies and other professional accountancy organisations as a short online survey. Since it was only run in the English language this likely negatively impacted the response rate from those not conversant with the language. The Accountants Association in Poland (SKWP) conducted the survey in Polish and the data were consolidated.

METHOD

EFAA launched the online survey in late February 2018 and kept it open through to the end of May 2018. The survey was written in a style that non-accountants would readily understand. Questions explored the benefits that SMEs perceive from having an audit and, where they are not required to have one, the motivations and reasons for choosing one or not choosing one.

RESPONDENTS

Complete responses were received from 386 SMEs across 29 European countries. Some two thirds of responses came from Poland and Romania. This renders the respondent sample somewhat unrepresentative and consequently care needs to be taken when interpreting the findings. Most (47.41%) respondents were owner-managers followed by the company's accountant (33.94%) and directors (16.58%). These respondents are well placed to make well-informed responses. Some 46.37% of the SMEs were family-owned businesses.

KEY FINDINGS

Sources of Finance

The table below shows the frequency with which SMEs used different forms of external finance (finance other than equity). By far the most commonly used sources are 'loans from banks and other financial institutions' (37.82%) and 'hire purchase and leasing' (31.61%). The nature and the frequency with which SMEs use external finance suggests that accountants have a role to play in advising on the appropriate amount and type of finance. It also raises the question as to whether the audit satisfies the information needs of lenders.

Did the company use any of the following sources of finance in 2017? *(Tick all that apply)*	**Yes (%)**
Loans (including mortgages) from banks and other financial institutions	37.82
Hire purchase or leasing	31.61
Directors' loans	13.99
Forward payments from customers	12.95
Loans from family and friends	10.88
Grants from public or private entities	8.29
Debt factoring or invoice discounting	5.96
Debentures	2.33
Loans from company pension funds	0.52
Venture capital or business angel finance	0.52
Crowd funding	0.26
Other	3.63
None	31.61

Services of Accountant

The table below shows that around one quarter of 2017 accounts were prepared by an external accountant and barely one in six received any other non-audit services from an external accountant. It should be noted, however, that there were significant differences from one country to another. This relatively low market penetration by accountants can be interpreted in various ways. It may suggest the profession has an opportunity to increase SME awareness of and demand for the range of services accountants can offer. It may also suggest the need for accountants to make their service offerings more attractive through improving their cost effectiveness. Another interpretation is that accountants do not presently offer the kinds of services that SMEs are seeking and that the profession should design services to better meet these needs or better explain and promote existing services.

	Yes (%)	**No (%)**
Were the annual accounts for 2017 prepared by an external accountant?	25.39	74.61
Did the company receive any other non-audit services from an external accountant(s) in 2017?	16.58	83.42

Users of Company Accounts

The table below shows who, apart from the shareholders and filing organization, normally receives the company's accounts. While accounts are typically publicly available from the filing organisation this question refers to who normally asks or receives the accounts directly from the company. The most common recipients of the company's accounts were tax authorities (61.40%) and lenders (37.31%). Suppliers and customers tend not to receive the accounts directly from the company. Given the high use made by lenders and tax authorities suggests that the accounts tend to provide what they need. Of special interest is whether an audit makes the accounts more useful to these users.

Apart from the shareholders and filing organization, who normally receives a copy of the company's accounts? *(Tick all that apply)*	**Yes (%)**
Tax authorities	61.40
The bank and other lenders	37.31
Directors or other employees who are not shareholders	26.17
Credit rating agencies	4.92
Credit insurance companies	4.40
Industry regulators	4.15
Major customers	3.37
Major suppliers and trade creditors	2.59
Other	11.14

Reasons for Audit

The table below shows the reasons for having an audit. Some 37.82% of respondents were required by law and another 17.87% by investors, lenders, suppliers or customers to have an audit while 18.39% were not required to have an audit but chose to have one. The sum coming to less than 100% indicates there may be other reasons not anticipated by the survey: the survey did not provide respondents the opportunity to specify other reasons.

Were the company's accounts audited in 2017 for any of the following reasons? *(Tick all that apply)*	**Yes (%)**
Required by law to have the accounts audited	37.82
Not required by law to have the accounts audited, but chose to do so	18.39
Shareholders want the accounts to be audited	9.33
Provider(s) of finance require audited accounts	5.18
Major suppliers or trade creditors require audited accounts	1.55
Major customers require audited accounts	1.81

Benefits from Audit

The table below shows the benefits to the company from having the accounts audited. Almost all survey respondents, including those whose companies were required to be audited, answered this question. The top three most commonly cited benefits were 'audit provides a check on accounting systems and records' (46.89%), 'auditor provides useful advice to management' (39.12%) and 'improves internal control' (37.05%), significantly ahead of 'gives assurance to external providers of finance' (26.17%). In other words, the primary benefits to having an audit accrue to internal users, specifically management, rather than to external users, such as providers of finance. This may not be so surprising given that most respondents were owner-managers. Notwithstanding this the finding may reflect a difference in the objectives of the audit for SMEs vis-à-vis large quoted enterprises and suggest the need for the profession to better promote the audit by stressing the wide range of benefits with heightened emphasis on benefits like improvements to internal control and a check on accounting systems and records.

What are the benefits to the company from having the accounts audited? *(Tick all that apply)*	Yes (%)
Audit provides a check on accounting systems and records	46.89
Auditor provides useful advice to management	39.12
Improves internal controls	37.05
Improves the quality of the financial information	29.02
Gives assurance to external providers of finance	26.17
Has a positive effect on the credit rating score	16.84
Improves operational efficiency and effectiveness	11.40
Deters or reveals fraud by directors or employees	10.10
Other	1.55
None	17.10

Alternatives to Audit

The table below shows whether SMEs, if allowed, would consider an alternative to audit. Almost all survey respondents answered this question, not only those currently required by law to have their accounts audited. Over half of the SME respondents (52.85%) would consider an alternative service to an audit though in practice this might be lower given the question above found a minority of respondents seek other services from an external accountant.

	Yes (%)	No (%)
If allowed, would the company consider an alternative service to an audit?	52.85	47.15

The following survey question sought to explore what benefits SMEs that said they would, if allowed, consider an alternative service to an audit, would seek an alternative. As the table below shows the benefits most sought after are ‘a check on accounting systems and records’ (31.35%), ‘advice on accounting regulations, company strategy, etc.’ (26.68%) and ‘a check on internal controls’ (25.65%). One might interpret these findings as evidence of a demand for an alternative service to audit. This would suggest merit in developing a new service to deliver these benefits. This might, however, be a premature and incorrect conclusion. Since the benefits respondents seek from an alternative mirror those cited above as the primary benefits of audit, in particular providing a check on accounting systems and records and internal control, then this points to a perception issue, that is a lack of appreciation as to the value and wide-ranging benefits of audit. This perception issue is best resolve through better promotion of the audit.

What are the benefits to the company from having an alternative service? *(Tick all that apply)*	Yes (%)
A check on accounting systems and records	31.35
Advice on accounting regulations, company strategy, etc.	26.68
A check on internal controls	25.65
Better quality financial information	18.65
Advice on improving operational efficiency and effectiveness	18.39
Verification of the existence or value of certain assets	11.92
Lower level of assurance than an audit at correspondingly lower cost	10.62
Improved credit rating score	9.59
Deterrence or discovery of fraud by directors or employees	8.81
Better able to attract external finance	6.48
Other	1.04

Audit Exemption

The final question asked whether the European Union audit exemption, which is presently only available to small companies, should also be made available to medium-sized companies. As the table below shows over half (59.07%) support extending the exemption. This suggests we can expect more pressure from business to increase thresholds and an even greater need for the value of audit to be enhanced and better communicated. This result is somewhat surprising in the light of the largely positive views of the audit expressed by respondents in previous questions and suggests that the profession needs to better explain and actively promote the benefits of audit.

	Yes (%)	No (%)
At present, in the European Union audit exemption is only available to small companies. Do you think audit exemption should also be made available to medium-sized companies?	59.07	40.93

OTHER EVIDENCE

Belgium

Only 6% of the 400 000 Belgian companies that are obliged to draw up and publish their annual accounts are required by law to have an audit. This statutory audit must be carried out in accordance with the International Standards on Auditing (ISAs). This leaves about 375 000 companies who can choose, for whatever reason, for a statutory audit on a voluntary basis or for a 'contractual' audit. In March 2019 a standard for contractual audits of SMEs, that can be performed by both the registered auditors and the external accountants, was published. This standard has been developed at the explicit request of the Minister of Economy. The definition of an SME is linked to the threshold for mandatory audits. The developers claim the new standard is based on the same principles as the ISAs and, therefore, will provide the basis for audits of similar quality to the ones performed in accordance with the ISAs. In using a bottom up approach it results in a standard that is much shorter, more understandable and easier to apply in an SME environment. The standard does not apply to statutory audits for which only the ISAs apply. However, the standard includes the possibility to apply the ISAs if agreed between the parties.

Denmark

In 2006 Danish companies with a net turnover of up to 3 million DKK were for the first time allowed to opt-out from the audit. Since then, the audit exemption threshold has been increased two times to the current 8 million DKK. In addition, companies with a net turnover of more than 8 million but less than 89 million DKK can now choose between a statutory audit or a less extensive "extended review." The number of companies opting-out form the audit has increased from 12 in 2006 to 112 000 in 2016. FSR Danish Auditors, who prepared a report on the basis of more than 252 000 annual accounts for 2016, estimated that between 11 000 and 19 000 companies would have had at least one remark from their auditor about bankruptcy risk, capital losses and other risk data. They conclude that the lack of risk information about the true health of the companies can be detrimental to the credibility of companies and ultimately in relation to their potential for attracting investment and capital but that ultimately it is the investors and creditors who risk being the losers.

Germany

The research paper '<u>What Drives Voluntary Audit Adoption in Small German Companies?'</u> - the key results are summarised in the IFAC Global Knowledge Gateway article <u>'Research Insights: Drivers for Voluntary Audit in Small German Companies'</u> - investigates the voluntary audit decision in Germany based on a random sample of 405 small firms responding to a postal questionnaire survey. The proportion of small German firms opting for voluntary audits is extremely low compared with that documented in other countries. Only 12 per cent of the companies investigated opt for voluntary audits while the equivalent ratios for other countries range between 26 per cent and 80 per cent. One reason for this may be Germany's lack of a mandatory audit history for small companies. Since previous practices are most likely to influence cost benefit perceptions, managers from Germany may value the costs and benefits of voluntary audit differently to managers from countries with a history of previously mandatory audit regimes. In line with previous research, the study finds that the likelihood of an auditor being hired voluntarily is correlated with the proportion of company owners who are not involved in management as well as the importance that managers place on accounting information for management accounting purposes. In contrast to previous studies on voluntary audit, the study does not find that the status as a family firm, ownership dispersion, or leverage (total debt divided by total assets) impacts a firm's voluntary audit decision. However, extending previous research, the study does find evidence that the legal form in which a company operates, the status as a subsidiary, and outsourcing of accounting tasks are further factors impacting a manager's voluntary audit decision. The study does not provide support for the argument that the existence of a supervisory board increases the likelihood of a voluntary audit.

By further examining the professional qualifications of those to whom accounting tasks are outsourced, the study provides evidence that the employment of an external tax advisor decreases the likelihood of a voluntary audit. In contrast, if accounting tasks are outsourced to an external accountant having the qualification of an auditor the likelihood of a voluntary audit increases. Subject to the professional qualifications of those to whom financial accounting tasks are outsourced, this result suggests that auditing can play a substitutive or a complementary role.

Italy

In January 2019 the Italian Council of Ministers approved a new law on business insolvency which has resulted in a significant lowering of the audit exemption threshold to EUR 2 000 000 for balance sheet total and net turnover and 10 employees. In their information paper 'Audit exemption thresholds in Europe – 2019 update' Accountancy Europe explain: "The lowering of the threshold was driven by the recognition that smaller companies not subject to any audit or control system were more prone to insolvency and that a certain level of controls and early warning mechanisms could help avert business failure.

Norway

In the paper 'Audit Exemptions and Compliance with Tax and Accounting Regulations' the researchers from BII Norwegian Business School examine small firms' compliance with tax and accounting regulations before and after a change in the threshold for mandatory auditing. Prior to 2011, all Norwegian firms were required to be audited. In 2011, a law change took effect that allowed small Norwegian firms to choose not to be audited. After this change in legislation, the Norwegian Directorate of Taxes conducted inspections of a representative sample of 2 117 Norwegian firms, with a focus on these firms' compliance with specific requirements in tax and accounting regulation. Using the results from these inspections to construct a score that measures these firms' compliance on the areas covered by the inspections, henceforth the compliance quality score (CQS), the researchers find that the firms that chose to opt out of auditing have lower CQS than do firms that chose to continue to be audited; that the CQS of firms that chose not to be audited declined after opting out; and that some of the opt-out firms fully mitigated the decline in CQS by engaging external accountants or auditors to prepare their annual financial statements. The authors conclude "the results should be of particular interest to politicians in countries that are considering increasing the thresholds for mandatory auditing, as our results show that (i) firms that choose not to be audited can experience a decline in CQS after opting out, and (ii) CQS can be maintained at the same level as before if opt-out firms engage external consultants that assist in preparing the annual accounts."

Sweden

In December 2017 the Swedish National Audit Office (NAO) published a report that examined the 2010 decision to abolish audit requirements for small limited companies.

The reform covered almost three quarters of limited companies which were subsequently allowed to choose whether they want an audit or not.

Statutory audit requirements had been discussed on various occasions, mostly weighing the costs and regulatory administration against audit as a measure to help combat economic crime and tax evasion. In the period 2006 – 2010 the Government implemented a number of reforms and suggested abolishing the audit obligation for small companies which was decided by the Riksdag in 2010. The reform aimed at reducing the administrative burden on companies and the costs of an audit while at the same time strengthening companies' competitiveness and helping more companies to grow and employ more people.

The NAO audited the consequences of the reform and published a report 'Abolition of audit obligation for small limited companies – a reform where costs outweigh benefits'. It showed that limited companies which had opted-out of audit reported weaker subsequent growth, both in net sales and in staff numbers. Furthermore, there was no indication that saving of internal and external audit fees had a positive effect on the companies' growth or profitability. While companies in risk sectors opted out of audit to a greater extent there was a general increase of errors in annual reporting formalities. The NAO goes on to state that the work to combat economic crime has been made more difficult and finally concludes the Government should act to reintroduce the audit obligation for small limited companies.

Accountancy Europe's information paper 'Rediscovering the Value of Audit' also reported on the developments in Sweden and Denmark and concluded that exempting SMEs from audit poses the following risks to the economy: impairment to quality of published financial statements; negative impact on tax collection; higher incidence of business insolvency; increased economic crime including fraud, corruption, money laundering and terrorist financing; and limitations on access to funding.

United Kingdom

The study 'The Demand for the Audit in Small Companies in the UK', based on a survey of a representative sample of companies conforming to the EU definition of 'small', investigates whether the three size criteria in company legislation (turnover, balance sheet total and number of employees) are appropriate and sufficient proxies for the demand for the audit in small companies. The survey garners the views of the main users of the audited accounts, the directors of the small companies concerned. The study finds that 63% of the sample companies would continue to have their accounts audited if they were to become exempt. This suggests that the majority of those affected by the proposed changes to increase thresholds consider the benefits of having their accounts audited outweigh the costs. The results indicate that turnover alone could represent size, but that size is less important than the directors' perceptions of the value of the audit in terms of improving the quality of information and providing a check on internal records. Agency relationships with owners and lenders are also revealed as influencing the audit decision.

IMPLICATIONS AND CONCLUSIONS

The respondent sample is somewhat unrepresentative and consequently care needs to be taken when interpreting the survey findings. Nevertheless, the evidence presented above highlights the significant value and benefits of audit for SMEs and may have significant implications for regulators and policy makers, standard setters, the profession and auditors.

Summary of Value and Benefits of Audit for SMEs

- Auditor provides useful advice to management;
- provides a check on accounting systems and records;
- improves internal controls;
- improves operational efficiency and effectiveness;
- improves the quality of financial information;
- deters or reveals fraud by directors or employees;
- gives assurance to external providers of finance;
- has a positive effect on the credit rating score;
- reduces risk of economic crime and tax evasion;
- stronger and more stable growth in sales and staff numbers;
- stronger compliance with tax and accounting regulation;
- reduces errors in published financial information; and
- provides early warning of business insolvency.

Regulators and Policy-Makers

For regulators and policy-makers perhaps most important implication is that empirical facts-based approach should form the basis for policy-making. Policy-makers should undertake a comprehensive impact analysis that carefully examines the benefits as well as the costs of SME audit. Moreover, the evidence on the value of audit suggests that the EC and national regulators have been over zealous in exempting small companies from having to have an audit and raising thresholds as part of reducing regulatory burden on SMEs. Regulators might wish to reassess audit thresholds.

The conclusions of Accountancy Europe based on the experience of Sweden and Denmark suggest there may be significant risks associated with SMEs not being audited that impact the public interest. This may provide a case for the EC and national regulators to carefully reconsider the existence and extent of audit exemption.

Standard Setters

Standard setters may need to not only make audit standards more scalable, and so conducive to the performance of a high quality and affordable audit, but also may need to better articulate the objectives and benefits of the SME audit with greater emphasis its value in providing a robust check on accounting systems, records and internal control.

Concerns over scalability of standards issued by the International Audit and Assurance Standards Board (IAASB) have intensified in the past few years as evidenced by developments including: the Nordic Federation proposing the 'Standard for Audits of Smaller Entities' (SASE), which elicited this response from the IAASB; Accountancy Europe hosting a panel discussion on 'Simplifying Auditing Standards for Small or Non-Complex-Entities' exploring possible solutions; some jurisdictions, like Belgium as described above, developing a standard for voluntary audit, and the IAASB embarking on an project to explore possible actions to address perceived issues when undertaking audits of less complex entities as explained in the March 2019 Board paper 'Audits of Less Complex Entities–Discussion'. At the time of writing an IAASB discussion paper is about to be issued and a conference to discuss it being planned for 16 -17 May 2019 in Paris.

Standard setters and regulators may need to accept that SMEs have different objectives and benefits in mind from having an audit, or an alternative service, to their larger listed counterparts and that this may need to be reflected in their standards and regulation. In particular, if SMEs have a strong desire to receive advice from the auditor as part of the audit then this may ultimately demand that auditing and ethical standards be modified to clarify and allow for auditors of SMEs to render certain types of advice during the ordinary course of the audit engagement.

Profession and Auditors

For the profession and auditors, given that presently most SMEs are exempted from the need to have an audit, it is crucial that they robustly demonstrate and communicate the relevance and value of audit and assurance services for small businesses. This is crucial given that for some SMEs the value of such services may not be immediately perceived. For this reason, it is vital to understand and respond to what the stakeholders need. The profession should better promote users understanding of audit and other services that meet those needs, as well as to develop new offerings, or modify existing ones, as the demands arise. In the case of SMEs, the focus should not only be on delivering what is prescribed by the legislator, but also on understanding clients' needs, demonstrating how audit and other services meet these needs, and adapting services where necessary. To assist SMPs in the promotion of their services IFAC has published a brochure 'Choosing the Right Service: Comparing Audit, Review, Compilation, and Agreed-Upon Procedure Services', that explains and differentiates the range of audit, review, compilation, and agreed-upon procedures services. It can help current and prospective clients understand the range of services available, as well as their benefits.

Other Developments

As noted above in Italy the audit threshold has recently been reduced as part of a package of measures to help SMEs avoid financial difficulties and even bankruptcy. With a similar objective Early Warning Europe (EWE) has established early warning mechanisms in four EU Member States - Poland, Spain, Italy and Greece - providing support to 3 500 companies in distress in 2017-2019. EWE aims to present a Next Generation monitoring and early warning method based on machine learning and big data to identify companies that are at risk of a bankruptcy.

Further Research

Our research indicates that SMEs value the useful advice auditors provide to management. There is merit in exploring this further to determine the nature and extent of the advice SMEs would like to see provided as part of the audit engagement. As indicated above this may ultimately demand that auditing and ethical standards be modified to allow for certain types of advice to be rendered by the auditor in the ordinary course of the audit engagement. In addition, there might be value in further investigation into new or alternative assurance and related services for SMEs. Finally, the apparent contradictions in the survey findings, on the one hand respondents are pro audit and see various advantages but on the other over half would consider an alternative service and nearly 60% prefer exemption for medium-sized, warrants further investigation.

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The **European Federation of Accountants and Auditors for SMEs** ("EFAA") represents accountants and auditors providing professional services primarily to small and medium-sized entities ("SMEs") both within the European Union and Europe as a whole. Constituents are mainly small practitioners ("SMPs"), including a significant number of sole practitioners. EFAA's members, therefore, are SMEs themselves, and provide a range of professional services (e.g. audit, accounting, bookkeeping, tax and business advice) to SMEs.

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