

Estonia

Impact of regulatory changes

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Market overview

- Estonia: small open economy, strong ties with Finland and Sweden, country's GDP ~ EUR 40 billion, growth forecast 2-3% p.a
- Audit market size: ~ EUR 26 million, slow growth despite relatively high thresholds:
 - statutory audit (at least 2 out of 3 exceeding): revenue € 4 million, assets € 2 million, 50 employees
 - statutory review (at least 2 out of 3 exceeding): revenue € 1.6 million, assets € 0.8 million, 24 employees
- 150 audit firms with 500 employees
350 licensed auditors, 2/3 of them active practitioners
- Combined market share of Big 4 + Grant Thornton over 50%
- Strong pressure on audit fees due to large amount of market participants, rising clients' expectations and fee levels in neighbouring countries
- Unique concept of statutory review: assurance service with an opinion in generalised negative format



Adoption of Audit Directive

- Adoption of Audit Directive one year ‘behind’, respective changes to Auditors’ Activities Act expected to be adopted on June 17th, with legal effect from 01.09.2017
- Only major ‘member state option’ used from Directive’s key provisions is the minimum duration of audit agreement set to 2 years
 - List of PIEs not expanded – which shall result the decrease the amount of PIEs from 150 to 50 and the auditing companies with PIE clients from 15 to 4
 - Length of the initial maximum audit duration period 10+10 years
 - Joint audit option not used
 - No additions to list of prohibited NAS nor stricter rules around ‘clean periods’
 - No stricter rules on fee cap
- The review of the principles of oversight function after 2 years and possible changes (Ministry of Finance or Financial Inspection may take over)



New oversight model

- Auditors' Oversight Board to be comprised of 5 non-practitioners, with 3-4 supporting permanent staff members, taking over the quality control and disciplinary proceedings from the Board of Auditors' Association.
- The cost of oversight for auditors to double, from current € 200 thousand to € 400 thousand.
- Licence fees to increase from current 1.0% to 1.6 % this year (maximum amount set forth in law is 3.2%) from the audit firm's annual revenue of audit services.
- Government annual funding for oversight to remain initially on € 145 thousand, but with a legitimate option to reduce it to zero.



Challenges for Estonian auditors

- In coming months
 - Helping Oversight Board to take over part of responsibilities and succeed
 - Amending the Articles of Association and internal regulations to meet the requirements of new legislation
 - New president to be elected to the association in September
- In coming years
 - Effectiveness and cost efficiency of the oversight
 - Making quality control system less rigid and more risk-based
 - Sustainability of auditor's professional examination system
 - Fighting the extremely heavy overregulation of the profession
 - Continuous promotion of the audit profession and the value of audit
 - Marketing our E-dok audit and internal audit software locally and internationally

Thank you!
Questions?

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