## Estonian tax and legal news (2/39/17)

This article highlights the latest developments in Estonian legislation.

The statutory audit requirement for public limited companies

A public limited company's financial statements will need to be audited if it has more than two shareholders. The earlier rules required a statutory audit at all times. This amendment came into force on 1 September 2017. The audit requirement in a public company with up to two shareholders follows the criteria applicable to private limited companies.

The minimum length of a statutory audit contract

The minimum length of a contract to audit financial statements has now been established. From 1 July 2017 a statutory audit contract should run for a minimum of two years. The annual rotation of auditors makes it difficult to comply with the requirements laid down by the professional standards and may endanger auditor independence. A longer contract period allows the auditor to better understand the client and improve the quality of the audit report. This also reduces costs incurred in contracting and the annual cost per contract. This requirement applies to all companies.

The list of public-interest entities to be shortened

Limiting the definition of a public-interest entity (PIE) is an important amendment. From 1 July 2017 PIEs are credit institutions, insurance companies, and stock companies. Many companies and local government units that were previously subject to PIE rules due to their size, are now exempt from additional obligations (such as setting up an audit committee).

Prohibition on additional services to PIEs

Supplies of non-audit services to PIEs are to be prohibited. This applies to the services listed in Article 5(1) (a-k) of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (the "blacklist").

However, member states may exclude certain services from the blacklist. Estonia has excluded the following services:

- 1. preparation of tax forms;
- 2. identification of public subsidies and tax incentives;
- 3. support regarding tax inspections by tax authorities;
- 4. calculation of direct and indirect tax and deferred tax;
- 5. tax advice: and
- 6. valuation services, including valuations performed in connection with actuarial services or litigation support services.

The provision of these services will continue to be subject to the following conditions:

- 1. they are irrelevant to, or have no direct or indirect effect on, audited financial statements;
- 2. the estimated effect on audited financial statements is fully documented and explained in a report

- to the audit committee;
- 3. the audit firm complies with the independence principles laid down by Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts.

The blacklisted services include legal services (such as general counsel, negotiation, and representation in court proceedings), services related to the internal audit function of an entity being audited, services regarding certain taxes etc.

The regulation came into force on 17 June 2016 and applies to audits of financial periods beginning after 17 June 2016.

## A supervisory fee

Mandatory membership fees for a member of the Board of Auditors will be replaced by three instalments, with a supervisory fee as the third component. The supervisory fee covers costs of supervision that do not match the country's earmarked allocation. Supervisory fees have the effect of pushing up audit costs and range from 0.7% to 2.4% of the audit company's revenue. The supervisory fee burden on the auditors can ultimately lead to an increase in audit service fees.