



# Corporate Financial Reporting in **Austria** an Overview

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## Main Abbreviations and Acronyms

|         |  |
|---------|--|
| AFRAC   | Austrian Financial Reporting and Auditing Committee                          |
| AeQ     | Committee for External Quality Inspections                                   |
| AG      | Stock Corporation (Aktiengesellschaft)                                       |
| A-QSG   | Audit Quality Control Law  |
| A-QSRL  | Audit Quality Control Directive  |
| BMWFJ   | Ministry of Economy, Family and Youth, the Ministry of Finance               |
| BSBV    | Industry Sector Bank and Insurance of the Austrian Federal Economic Chamber  |
| CFRR    | World Bank Centre for Financial Reporting Reform                             |
| FMA     | Financial Supervisory Authority  |
| GAAP    | Generally Accepted Accounting Principles                                     |
| GmbH    | Limited Liability Company (Gesellschaft mit beschränkter Haftung)            |
| GVA     | Gross Value Added  |
| IAS     | International Accounting Standards   |
| IASB    | International Accounting Standards Board                                     |
| IFRS    | International Financial Reporting Standards                                  |
| IWP     | Institute of Austrian Certified Public Accountants                           |
| KWT     | Austrian Chamber of Public Accountants                                       |
| LLC(s)  | Limited Liability Company(ies)   |
|         |  |
| OeNB    | Austrian National Bank   |
| OePr    | Austrian Review Panel for Financial Reporting                                |
| PIE(s)  | Public Interest Entity(ies)  |
| QKB     | Austrian Audit Quality Control Oversight Board                               |
| ROSC    | Reports on the Observance of Standards and Codes                             |
| REPARIS | Road to Europe: Program of Accounting Reform and Institutional Strengthening |
| SME(s)  | Small and Medium Enterprise(s)   |
| UGB     | Entrepreneurial Code (Unternehmensgesetzbuch )                               |
| WKO     | Austrian Federal Economic Chamber (Wirtschaftskammer Österreich)             |
| WT-ARL  | Directive on the Practice of the Public Accounting Professions               |
| WTBG    | Public Accountants' Statute of Professional Practice                         |

## Preface

This report was prepared by Bernhard Lindner, Operations Analyst at the Centre for Financial Reporting Reform (CFRR) between March 2012 and June 2013. It describes Austria's institutional framework for corporate financial reporting. It does not seek to assess their adequacy, and does not contain any recommendation.

The research was conducted through a participatory process involving various in-country stakeholders, with the support of the Austrian Federal Economic Chamber, the Austrian Chamber of Public Accountants (KWT), the Austrian Financial Reporting and Auditing Committee (AFRAC), the Austrian Ministry of Justice, and Austrian academics and representatives of the business communities.

The author is grateful to Henri Fortin (CFRR Head) for his advice and guidance, and to James Francis Owen and Susan Schroeder for their editorial support.

## **Overview**

This report provides an introduction into Austria's corporate financial reporting environment, with a particular focus on SMEs and specific features of the Austrian environment. It is intended for policy makers, regulators and practitioners in Central, Eastern and Southeast Europe who seek examples of how to formulate or implement the corporate financial reporting elements of the EU *acquis communautaire*.

### **Austrian SMEs and Their Experience of Corporate Financial Reporting**

SMEs play a particularly important role in the Austrian economy, with commercial banks acting as their main sources of external finance. Two surveys collected data on the Austrian SME sector's experience of corporate financial reporting practices, and banks' requirements and expectations regarding the scope and quality of financial information provided by SMEs when applying for credit. The surveys found that Austrian SMEs value the role of financial statements, both audited and unaudited, to help them in the financial management of their businesses. In addition, Austrian SMEs believe financial statements play an important role in facilitating their access to bank financing. The findings of the surveys highlighted aspects of the Austrian financial reporting environment of particular interest for SMEs. These were given special attention in researching this report and in semi-structured interviews with authorities on the current Austrian framework for corporate financial reporting. They are highlighted throughout the report.

The potential benefits for Austrian SMEs from financial reporting very much depends on the striking of an appropriate balance between promoting improved financial information, and not imposing an undue regulatory burden on reporting firms. The quality of the services provided by the accounting and audit profession in relation to the financial information is also a key consideration. In this respect, the surveys found that the assurance service provided by the audit profession is generally well perceived by Austrian financial institutions.

### **The Statutory Framework for Corporate Financial Reporting in Austria**

Austrian commercial accounting rules impose bookkeeping obligations on all businesses, with simplified systems for smaller enterprises. Those with an annual turnover exceeding EUR 700,000 must prepare an "annual inventory and financial statement". The financial statements of all enterprises with supervisory boards must be audited. Auditors are appointed by the supervisory board. Austrian Auditing Standards are set out in various expert opinions. In Austria, the international standards on auditing (ISA) are not fully implemented at present but all national provisions that contravene ISA regulation have been suspended. In accordance with EU regulation, the non-application of ISA is possible in Austria in exceptional cases that relate to the scope of statutory audits. Requirements may thus vary according to the size of the enterprise.

## **Accounting and Auditing Standard-Setting**

Authority to set accounting standards in Austria rests with the government. Austrian Generally Accepted Commercial Accounting Principles (GAAP) are established in law. Adjusted in accordance with tax legislation they also form the basis for the country's tax accounting rules. Although the Austrian GAAP and the principles in the framework of IAS / IFRS are very similar, they differ in their fundamental objectives as well as their strategic orientation and emphasis. The Austrian Financial Reporting and Auditing Association/ Committee (AFRAC) advises the government in standard-setting in accounting and auditing. It plays an active role in promoting an understanding of international and Austrian standards among the profession and the business community in general. AFRAC is made up of key Austrian stakeholders in the field of financial reporting. All members can contribute to the process of producing the AFRAC statements and recommendations on which policy makers base their decisions.

## **The Accounting and Auditing Profession and Education System**

There is a distinction in Austria between public accountants and self-employed accountants. According to the law, self-employed accountants include Certified Management Accountants, Payroll Accountants, and Certified Accountants. The public accounting profession includes tax consultants and certified public accountants, the latter being authorized to act as statutory auditors.

Self-employed accountants and accountancy practices must be officially registered. They are required to meet certain work experience and other general requirements (capacity, trustworthiness and financial stability), and to pass a written and oral examination. They must undertake continuing professional development (22.5 hours each year). These appointments are overseen by a so-called Joint Commission, with the authority to sanction or withdraw permission to practice if requirements are not met.

## **Monitoring, Oversight and Enforcement**

Austria recently implemented a two-tier monitoring system with a newly established Austrian Review Panel for Financial Reporting (OePr) and Financial Supervisory Authority (FMA). The review panel is charged with verifying that financial statements comply with IFRS or other applicable accounting standards and the FMA mainly decides on enforcement priorities and audit plans.

Quality assurance & public oversight systems are governed by a law equivalent to the EU statutory audit directive. The Austrian system follows a "monitored peer review approach". The Committee for External Quality Inspections (AeQ) is responsible for the implementation of the external quality assurance system. An appointed inspector, selected among practicing auditors, prepares a report assessing the adequacy of internal quality assurance (QA) measures; the report is then submitted and evaluated by the AeQ. If these QA

measures are deemed adequate, a certificate to undertake audits is re-issued, sometimes with recommendations for improvement. In certain cases, the AeQ can impose sanctions, or the certificate can be revoked.

The Austrian Audit Quality Control Oversight Board (QKB) is responsible for the oversight of the Austrian audit quality oversight system. Board members are exclusively non-practitioners. One important role of the QKB is overseeing the appointment of inspectors, who must be licensed auditors with some additional, specific qualifications.

## I. Background and Objectives

The purpose of this Report on Corporate Financial Reporting in Austria is to describe the key features of Austria's corporate financial reporting environment as well as its practical application in regard to SMEs' financial reporting practices in Austria.

Designed as a peer-learning activity for policy makers and government officials, this report builds on the World Bank Accounting and Auditing Reports on Standards and Codes (ROSC) methodology to give an overview of the Austrian corporate financial reporting system. It selectively provides good practice examples that can give incentives to overcome impediments to financial reporting reform. Based on the findings of two surveys conducted among Austrian small and medium enterprises (SMEs) and Austrian financial institutions, the report focuses particularly on aspects relevant to SME financial reporting.

In line with their European Union (EU) accession objectives, as well as the need to improve their business environment, the strategic objective of this task is to support Central, Southeast and Eastern European Countries in their efforts to develop or implement a corporate financial reporting system aligned with the *acquis communautaire*.

The well-functioning of an economy is significantly dependent on the production and availability of reliable financial information on businesses' performance. Standardized, transparent, and credible financial information creates market confidence and is the basis for any economic decision of business owners, managers, investors, banks, and other stakeholders. A sound financial reporting system favors the development of efficient markets with an optimized relationship between capital supply and demand and thereby contributes to financial stability.

This report forms part of the activities of the CFRR within the Road to Europe Program of Accounting Reform and Institutional Strengthening (REPARIS), which also provided funding.

### I.A Country Context

Austria is a stable, wealthy and prosperous nation in Central Europe. Following World War I, and the end of the Habsburg dynasty, the country was established as a Republic in 1918. In 1938 Austria was incorporated into the German Reich. After World War II the country again became an independent republic, although occupied by the allied forces until 1955.

Today's Austria is a federal republic composed of nine autonomous federal states. Citizens periodically elect the Federal President, the National Council, the Provincial Parliaments (Provincial Diets and Municipal Councils), and the country's representatives in the EU

parliament. The Austrian constitution also provides instruments of direct democracy including referendums, popular initiatives, and public consultations.

The Austrian Parliament and the Provincial Diets pass laws and supervise their implementation. The two chambers of the Austrian Parliament - the National and the Federal Council - represent legislative power at the federal level. Draft-laws, most of which come from the Federal Government in the form of a Government Bill, are first introduced in the National Council.

Austria became a member of the EU in 1955 and in 1999 it was one of the eleven countries that adopted the Euro as scriptural currency. With EU accession EU law was incorporated in the hierarchy of the Austrian legal system. Today, no Austrian law may contradict applicable law within the EU *acquis communautaire*.

Austria has a land area of 83.858 square kilometers<sup>1</sup> and borders Germany, the Czech Republic, Slovakia, Hungary, Slovenia, Italy, Switzerland, and Lichtenstein. The country's official language is German.

The country had a population of 8.44 million at the beginning of 2012, of which about one fifth was living in the country's federal capital Vienna. 11.5 percent (0.97 million) of Austria's total population are of non-Austrian citizenship. Among the non-Austrian nationals 571.287 people are third country (non-EU, non-European Economic Area<sup>2</sup>, non-Swiss) nationals of which 52 percent (296.377) come from the new states formed from the former Yugoslavia (excluding Slovenia, which has since become member of the EU).<sup>3</sup>

In 2012 Austria had an employment rate<sup>4</sup> of 72.5 percent in the 15 to 64 year age range and an unemployment rate of 4.3 percent. The same year, the country's gross domestic product (GDP) growth amounted to 0.9 percent (2.8 percent in 2011) and the government deficit (Maastricht indicators) amounted to -2.48 percent of the GDP (-2.46 percent in 2011).<sup>5</sup>

In both population and land area Austria ranks among the smaller member states of the EU, but in key social and economic indicators it is often above average or among the top performers in the EU-27.

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<sup>1</sup> Austrian National Tourist Office, 2013

<sup>2</sup> Here referring to member states of the EU, except Croatia, plus Iceland, Liechtenstein and Norway.

<sup>3</sup> STATISTICS AUSTRIA, 2012

<sup>4</sup> International Labor Organization (ILO) definition.

<sup>5</sup> STATISTICS AUSTRIA, 2012

## I.B Overview of the Private Sector in Austria<sup>6</sup>

The Austrian economy is dominated by the tertiary sector (services) which accounts for around 70 percent of the gross value added (GVA). Most employees in this sector work in trade, followed by accommodation and food services. The secondary sector (production) contributes almost 30 percent and includes the major industries, mining and quarrying energy producing materials, manufacturing, electricity, gas and water supply, as well as construction. Only less than 2 percent of the GVA comes from agriculture and forestry (the “primary” sector).

Austria's foreign trade is a very important factor of the domestic economy. The county's top foreign trade partner is Germany. Other major EU-trading partners are Italy, Switzerland, and the Czech Republic. Trade with EU member states accounted for 71.4 percent of total imports and 69.7 percent of total exports in 2011. Trade with third countries amounted to 29.4 percent of the total foreign trade. Middle and Eastern European countries<sup>7</sup> are also very important markets for Austrian products and represented 14.4 percent of all imports and 17.9 percent of all exports in 2011. The product group with the highest volume in trade is machinery and transport equipment.

Austrian banks are characterized by a high degree of internationalization. Since the opening up of Eastern Europe, Austrian banks have invested in the region. According to a publication of the Austrian National Bank (OeNB)<sup>8</sup>, which regularly assesses economic and banking developments in Austria, majority-Austrian-owned banks total international exposure (claims) amounted to EUR 345 billion or 115 percent of Austrian GDP as at end-March 2012. The Central, Eastern or Southeastern Europe<sup>9</sup> (CESEE) area accounted for Austrian bank total exposure of EUR 215.5 billion to at the end of June 2012, of which the South-East European (SEE) region<sup>10</sup> accounts for 19 percent (EUR 41 billion).

Austria has one of the highest bank-densities and also one of the highest branch densities in international comparison. Banks contribute about 3.5 percent to the country's GDP and employ country-wide about 70.000 people.<sup>11</sup>

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<sup>6</sup> Data-source of information if not stated otherwise: STATISTICS AUSTRIA, 2012.

<sup>7</sup> Here referring to Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary, Romania, Bulgaria, Albania, Slovenia, Croatia, Bosnia-Herzegovina, Serbia, Montenegro, Kosovo, and Macedonia.

<sup>8</sup> OeNB, 2012

<sup>9</sup> Here referring to Central and East European (CEE) countries that joined the EU in 2004 and 2007 (new member states), other South East European (SEE) countries outside the EU at the time of writing, and the members of the Commonwealth of Independent States.

<sup>10</sup> Here referring to Albania, Bosnia and Herzegovina, Croatia, Montenegro, FYR Macedonia, Serbia, and Turkey.

<sup>11</sup> BSBV, 2010

Enterprises in Austria most commonly operate through one of the following legal forms:

- » Stock Corporation (AG - Aktiengesellschaft)
- » Limited Liability Company (GmbH - Gesellschaft mit beschränkter Haftung)
- » General Partnership (OG - Offene Gesellschaft)
- » Limited Partnership (KG- Kommanditgesellschaft)
- » Cooperative (Gen - Genossenschaft)
- » Sole Proprietorship (Einzelunternehmer)

### Focus on SMEs – Facts and Figures<sup>12</sup>

In Austria 99.7 percent of all enterprises in the “market-oriented economy” are SMEs. Of these about 87 percent are micro-enterprises with less than 10 persons employed. Another 10.6 percent are small enterprises with 10 to 49 jobholders. 1.6 percent can be categorized as medium-sized (50 – 249 persons employed).

SMEs are distributed fairly equally across the different industries in Austria. SMEs employ almost 1.8 million persons, including around 0.3 million self-employed. This represents almost 67 percent of all persons employed in the market-oriented economy in Austria. Almost a quarter of Austrians employed in the market-oriented economy work in micro-enterprises; about 23 percent in small enterprises; and nearly 19 percent in medium-sized enterprises. Most self-employed people are to be found in the micro-enterprise sector.

Approximately 17 percent of the turnover of the market-oriented economy is generated by micro-enterprises, 22 percent by small enterprises, and more than 23 percent by medium-sized enterprises. In total, the contribution of the SME sector to the total turnover of the market-oriented economy is 62.6 percent (about € 398 billion).

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<sup>12</sup> CFRR, 2013

## **II. Focus SMEs: Value and constraints of financial reporting practices in Austria**

### **II.A Background**

For this report on Corporate Financial Reporting in Austria, the CFRR conducted two surveys, in cooperation with Austrian partner organizations<sup>13</sup>, on i) the experience of the Austrian SME sector with corporate financial reporting practices, and ii) banks' requirements and expectations with regard to the scope and quality of financial information provided by SMEs when applying for credit. The main findings that follow provide the basis for selecting those aspects of the Austrian Financial Reporting environment that are of particular interest for SMEs and therefore described in chapters III-VI of this report.<sup>14</sup>

### **II.B SME Accounting and Reporting Practices in Austria**

#### **II.B.i Partners, methodology & representativeness**

A survey on SME Accounting and Reporting Practices in Austria, funded by the Economic Policy Department and the Institute for Economic Promotion of the WKO, was jointly conducted by the CFRR and the Austrian Institute for SME Research between October and November 2012.

786 properly completed online surveys were used for the analysis. All results have been weighted by industry and the number of employees, according to the basic company population in Austria. The results of this survey are representative for the Austrian SME sector.

#### **II.B.ii Key findings**

##### **SMEs use financial statements to improve financial management and to secure access to finance**

Austrian SMEs are required by law to draw up financial statements. 63% of Austrian SMEs use their financial statements often or very often, and they consider financial reporting useful to improve the financial management of their business. Half of Austrian SMEs use their financial statements often or very often to secure supplier credit or a bank loan.

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<sup>13</sup> Partner organizations in this project include the Economic Policy Department, the Institute for Economic Promotion and the Industry Sector Bank and Insurance of the Austrian Federal Economic Chamber, as well as the Austrian Institute for SME Research.

<sup>14</sup> For further reading on the key results and main conclusions please refer to the Annex of this report.

### **Austrian SMEs face some challenges in relation to their accounting obligations**

More than half of Austrian SMEs consider the complexity of accounting requirements (58%) and the time required for preparing accounting and financial reports (57%) as very or rather high. The cost of compliance with accounting requirements is regarded as (very or rather) high by 56% of SMEs.

### **Most SMEs outsource the preparation of financial statements to specialist service providers**

Almost three-quarters of all Austrian SMEs outsource all the preparation of their financial statements to specialist service providers. SMEs are generally very satisfied with the services provided by these specialist firms. Only 8% of SMEs prepare their financial statements in-house (i.e. without an external service provider) and more than half of these benefit from the advice of their local business association and professional organizations for public accountants and tax advisers.

### **Austrian SMEs see value in having audited financial statements beyond the legal compliance aspect**

In Austria, only AGs or GmbHs are legally required to have their financial statements audited (partnerships and other forms are not). The majority of limited liability companies (LLCs) participating in the survey see value in having their financial statements audited. Indeed, they consider that audits (i) enhance the credibility of their financial statements (56% of participating LLCs), and (ii) strengthen their internal controls (51%).

### **Banks are the single most prominent source of financing for Austrian SMEs**

Banks are the most common source of investment-financing for SMEs. More than two-thirds (67%) of Austrian SMEs with investment requirements in the past 3 years used bank financing to meet their needs.

### **SMEs perceive an increase in banks' documentation requirements when drawing a credit**

Most Austrian SMEs that have received bank financing for their investments over the past 3 years consider that banks' documentation requirements became much (30%) or slightly (28%) tougher during this period.

## **II.C Lending Practices to SMEs in Austria**

### **II.C.i Partners, methodology & representativeness**

The CFRR<sup>15</sup> conducted a survey, via email questionnaire, of all Austrian credit institutions between September 17<sup>th</sup> and October 19<sup>th</sup>, 2012.

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<sup>15</sup> With the generous support of the BSIC

The total balance sheet of all participating credit institutions, according to annual accounts after local generally accepted accounting principles (GAAP), amounts to EUR 300.712 million in 2011, i.e. 30% of the total balance sheet of all Austrian credit institutions (EUR 992.814 million).<sup>16</sup>

The total loan portfolio (loans and receivables to customers) of all banks participating in the survey represents approximately 38% (EUR 165.997 million) of the total lending portfolio of all Austrian credit institutions (EUR 442.267 million).<sup>17</sup>

## II.C.ii Key findings

### Banks see external auditing as a key process to ensure the accuracy of accounting information

Audited financial statements are among the most frequently required documentation as part of the loan application process for SMEs. Of all the impact factors that banks consider when making a credit decision, audited financial statements, if available, are attributed the highest importance. Whether a financial statement is audited or not, and which accounting standards are used, are perceived by banks as important indicators of the quality and accuracy of financial information, especially when medium-sized and larger companies apply for credit. For Austrian banks the reputation of the firm carrying out an audit has a very low impact on the usability of financial statements.

### Financial statements play an important role in an SME credit application

Banks draw on information from financial statements in assessing an SME's credit application to gain insight into the applicants' gearing/indebtedness and profitability, as well as their liquidity and cash situation. The information in financial statements is often compared with other financial information provided in a credit application.

## II.D Conclusions

The analysis of the data collected in the two surveys suggests that financial statements, both audited and unaudited, play a valued role for SMEs; not only for tax purposes, but also in helping SMEs improve the financial management of their businesses and facilitate their access to bank financing as they play a key role in banks' decision making process in the course of an SME credit application.

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<sup>16</sup> For comparison, statistical data from the OeNB (banks' balance sheets) were used.

<sup>17</sup> See above;

Preparing financial statements requires efforts and resources and, as might be expected, a number of SMEs find bookkeeping and reporting obligations costly. At the same time, SMEs are generally satisfied with the services provided by external service providers. The Austrian audit profession has a good reputation for providing reasonable quality-assurance for financial decision making among Austrian credit institutes.

The surveys show that SMEs potential use of financial reporting in Austria is very dependent on the following two factors, which provide the framework for this report's special focus on SME financial reporting practices:

- (i) a system that strikes the appropriate balance between **promoting improved financial information** and **lessening the regulatory burden**; and
- (ii) the **accounting and auditing profession's capacity** to provide reasonable assurance regarding the data accuracy of the financial information provided in a SME credit application.

### **III. Statutory Framework – Corporate Sector Accounting**

#### **III.A The EU Acquis Communautaire<sup>18</sup>**

For further information on Accounting and Auditing regulation in the EU, please refer to “Guide to Corporate Sector Accounting and Auditing in the *Acquis Communautaire*”, CFRR.

#### **III.B The Statutory Framework in Austria**

##### **III.B.i Legal obligation to keep records**

In Austria, the obligation for enterprises to keep books and to record business transactions mainly arise from the country's Entrepreneurial Code (Unternehmensgesetzbuch - UGB). Whether and when accounting is compulsory, according to the provisions set out in the UGB, depends on the entrepreneurial status (as defined in the UGB); the legal form of the enterprise; and the type of income and amount of sales revenues.

LLCs are always obligated to maintain ledgers irrespective of their sales volume.

For all other forms of enterprises, §189 of the UGB defines the turnover thresholds that regulate if an enterprise must meet the bookkeeping requirements as set in the UGB. If these thresholds are exceeded, an enterprise also automatically has to apply double-entry bookkeeping.

|   | Turnover-threshold per year                          | Qualified turnover-threshold           |
|---|--|--|
| Amount  | EUR 700.000  | EUR 1.000.000                          |
| Obligation to keep and retain books and records come into effect if | threshold has to be exceeded in two succeeding years | threshold has to be exceeded once only |

Books and accounting records must be kept and retained for a seven year period.

Two additional acts cover the specific nature of accounting for the banking and insurance sectors: the Austrian Banking Act (Bankwesengesetz - BWG) and the Insurance Supervision Law (Versicherungsaufsichtsgesetz - VAG).

Specific legal provisions regarding banks and insurance companies related to financial reporting are not described here.

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<sup>18</sup> “Guide to Corporate Sector Accounting and Auditing in the *Acquis Communautaire*”, (CFRR, 2011).

### **III.B.ii Business accounting – tax accounting**

Austrian tax accounting is based on the country's commercial accounting rules (Austrian GAAP), adjusted in accordance with tax legislation set out mainly in the Federal Fiscal Procedures Act (Bundesabgabenordnung - BAO) and the Income Tax Act (Einkommenssteuergesetz - EStG).

Thus, whoever bears an obligation under the commercial code to keep and retain books and records must also keep this information for tax purposes under the Federal Fiscal Procedures Act.

According to §5 of the Austrian Income Tax Act, the accrual method is mandatory if an enterprise exceeds the turnover thresholds mentioned in the commercial code.

However - for tax purposes - enterprises' calculation of income can also be based on several other accounting methods if they fall below these thresholds.

| Bookkeeping requirements in Austria                  |  |
|--|--|
| Limit  | Bookkeeping  |
| Turnover less than EUR 220,000                       | Flat-rate, accounting on a cash basis, or double-entry bookkeeping |
| Turnover less than EUR 700,000                       | Accounting on a cash basis or double-entry bookkeeping             |
| Turnover above EUR 700,000                           | Double-entry bookkeeping   |
| Capital companies (LLC, in particular GmbHs and AGs) | Double-entry bookkeeping   |

#### **Focus SMEs – Bookkeeping requirements**

The Austrian Commercial Code was amended in 2010, raising the turnover threshold that defines mandatory application of financial reporting requirements set out in the Austrian Commercial Code from EUR 500.000 to EUR 700.000. As a result many SMEs no longer need to use double-entry bookkeeping for income and profit tax collection but can prepare their annual accounts based on simplified systems like cash-basis accounting and global ("blanket") accounting.

### **Focus SMEs – Uniform chart of accounts**

The Austrian uniform chart of accounts was issued by the KWT in 1991 on the basis of the Law on Accounting and amended according to changes in tax and commercial law. It is for financial accounting purposes only and serves as a guideline and recommendation for an enterprise setting up a concrete chart of accounts. Built up using the decadic system (classes 0-9) and structured in account groups (two digits) and accounts (three digits), it can be extended to four or more digits if necessary. This aims to ease the unified booking of similar business transactions, especially for SMEs.

A further aim is to foster SMEs to adopt double-entry bookkeeping which in turn also allows SMEs to change software packages more easily and facilitates the government's efforts to implement standardized procedures for SMEs through e-portals.

### **III.B.iii General principles**

The UGB incorporates the Austrian GAAP which can be classified into three major groups of accounting and valuation principles. They lay down the rules necessary for proper accounting:

|   |                                      |   |
|---|--------------------------------------|---|
| <b>Fundamental or superior principles</b>     | <b>True and fair presentation</b>    | <ul style="list-style-type: none"><li>» complete set of financial statements, comprising balance sheet, income statement, and – for corporations – notes and additional other statements (management report and Corporate Governance report)</li><li>» all assets and liabilities should be measured and all transactions should be reported in compliance with all statutory measurement rules</li><li>» in consolidated financial statements a consolidated cash flow statement is also mandatory</li></ul> |
|   | <b>Unambiguous presentation</b>      | <ul style="list-style-type: none"><li>» clear and well-structured presentation of assets and liabilities as well as of revenues and expenses to facilitate determining the performance and financial position of an entity</li><li>» no netting of assets and liabilities or of revenues and expenses</li></ul>   |
| <b>Realization and recognition principles</b> | <b>Revenue recognition principle</b> | <ul style="list-style-type: none"><li>» revenue is the gross inflow of economic benefits during the period arising in the course of ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants</li></ul>  |

|                                 |                                      |   |
|---------------------------------|--------------------------------------|---|
|                                 | <b>Expense recognition principle</b> | » an entity is required to provide for all possible losses and if there is any doubt about an asset's realizability, to provide for or write off the asset  |
|                                 | <b>Matching principle</b>            | » amounts reported as expense depends on as revenue in particular period must have their economical substance in this period  |
| <b>Supplementary principles</b> | <b>Consistency</b>                   | <ul style="list-style-type: none"> <li>» in classification, format, and the valuation of assets and liabilities</li> <li>» financial statements of successive periods must be comparable, i.e. transactions in the current period must be accounted for in the same way as they were in the previous periods; changes may only be made if there are compelling economic reasons</li> </ul>  |
|                                 | <b>Conservatism</b>                  | <ul style="list-style-type: none"> <li>» where several acceptable valuation alternatives are available, the alternative with the least favorable immediate influence on the financial position of the reporting entity must be chosen</li> <li>» assets have to be valued at the lower of cost or market value, and liabilities at the higher of cost or market value, at each reporting date</li> <li>» expected but unrealized revenues must be ignored and expected unrealized losses have to be recognized</li> </ul> |

(KPMG, 2012)

### III.B.iv Financial statements

In Austria any business entity subject to the regulation set in the UGB is obliged to prepare an inventory and financial statements at the end of every financial year. This includes all LLCs and all other enterprises with an annual turnover exceeding € 700.000.

Financial statements in Austria generally comprise a balance sheet and an income statement. Balance sheets must be prepared in accounts format, as prescribed in the UGB, and income statements in report form, using either the total-cost format or the cost-of-sales format.

LLCs must additionally prepare notes that provide a true and fair view of the firm's assets, financial and earning situation as well as, under certain circumstances, a management report that discloses all additional information.

## Focus SMEs – Financial statement simplifications for small and medium LLCs

For LLCs, the legislation distinguishes between small, medium and large enterprises. To allocate a company to a particular size class, the company must meet two out of the following three criteria on two successive balance sheet dates. However, an entity is always considered as large when it is a publicly quoted AG:

|        | Balance sheet total<br>(EUR million) | Net Turnover<br>(EUR million) | No. of employees<br>(average per year) |
|--------|--------------------------------------|-------------------------------|--|
| Small  | up to 4.84                           | 9.68                          | 50                                     |
| Medium | from 19.25                           | 38.5                          | 250                                    |
| Large  | above 19.25                          | 38.5                          | 250                                    |

For medium sized entities simplifications are available in respect of their income statement and notes to the financial statements. For small entities the notes to the financial statements are greatly simplified and they do not have to prepare a management report at all.

### III.B.v Consolidated financial statements

Whether or not Austrian LLCs<sup>19</sup> are required to prepare a consolidated financial statement is dependent on where their headquarters are situated, their exercise of control over other companies, as well as on the shares they hold with these other companies.

If an enterprise is under uniform control of a LLC (parent company) which has its headquarter in Austria and holds all or part of the company's shares, the legal representatives of the parent company have to prepare a consolidated financial statement and present it together with the management report to their board and the general assembly. The UGB rules that a certain level of control over a daughter company can be reason enough for an AG or GmbH to prepare consolidated financial statements.

Consolidated financial statements comprise a consolidated balance sheet, a consolidated income statement, consolidated notes, a consolidated cash-flow statement, and a presentation of current assets and their development over time. It can be extended by segment information.

<sup>19</sup> In particular corporations and partnerships where no individual is a personally liable partner

For banks and insurance companies additional sector-specific consolidation requirements are in force.

#### **Focus SMEs – financial statement exemptions**

With the exception of listed groups, enterprises can be exempted from the requirement to prepare a consolidated financial statement if:

a) they meet two out of the following three criteria on two successive balance sheet dates of their financial statements (pre-elimination figures):

- » Balance sheet total of both mother and daughter enterprise(s) do not exceed EUR 21 Million in total;
- » Turnover of both mother and daughter enterprise(s) do not exceed EUR 42 Million within 12 months before the balance sheet date;
- » Mother and daughter enterprise(s) do not employ more than 250 persons (on average) within 12 months before the balance sheet date.

b) they meet two out of the following three criteria on two successive balance sheet dates of their consolidated financial statements (consolidated figures):

- » Balance sheet total does not exceed EUR 17,5 Million;
- » Turnover does not exceed EUR 35 Million within 12 months before the balance sheet date;
- » Mother and daughter enterprise(s) do not employ more than 250 persons (on average) within 12 months before the balance sheet date.

#### **III.B.vi International Financial Reporting Standards (IFRS)**

As a member state of the EU, Austria is subject to the IAS Regulation adopted by the EU in 2002 (Article 4 of Regulation 1606/2002). Since 2005 the EU IAS Regulation requires application of IFRS as adopted by the EU for the consolidated financial statements of European companies whose securities trade in a regulated securities market.

An Austrian parent company that is not subject to EU Regulation No. 1606/2002 is free to choose to prepare its consolidated financial statements in accordance with the IFRS of the International Accounting Standards Board (IASB) or in accordance with Austrian GAAP.

Although the Austrian GAAP and the principles in the framework of IAS / IFRS are very similar, they differ in their fundamental objectives as well as their strategic orientation and emphasis. While within Austrian financial statements the principle of prudence dominates,

IFRS prioritizes the reliability of financial reporting. This includes the principle of a true and fair view as well as the principle of objectivity. In comparison to Austrian GAAP, IFRS considers the so called “matching principle” more important than the principle of prudence.

Another fundamental difference between IFRS and UGB is in the criteria for recognition. Under IFRS it is given when an economic benefit is probable and costs and value of the item can be measured reliably. The Austrian legal framework differs (tighter for assets, and further for liabilities) which can lead to completely different approaches in regard to provisions.

### **III.B.vii Audit, disclosure and publication**

**Obligation to audit financial statements:** In Austria it is compulsory for all large and medium-sized LLCs<sup>20</sup> to submit audited financial statements together with the management report to the supervisory board within five months of the end of the financial year.

The international standards on auditing (ISA) are not currently fully implemented in Austria. However, all national provisions that contravene ISA regulation have been suspended. Additional requirements that arise from national legislation and that are not in contradiction to the ISA are still valid. In accordance with article 26, paragraph 2 of directive 2006/43/EC, the non-application of ISA is possible in exceptional cases relating to the scope of statutory audits according to specific national legal requirements.

#### **Focus SMEs - Audit**

Only small-sized LLCs<sup>21</sup> with obligatory supervisory boards are required to audit their financial statements. Supervisory boards are obligatory for all AGs with share capital exceeding EUR 70,000 and more than 50 shareholders.

**Nomination and appointment of an auditor:** If an enterprise has a supervisory board, the board has the right to nominate an auditor. The appointment of the auditor is made by the owners/shareholders at a general assembly to which all board members should be invited. In the case of a consolidated financial statement the appointment is made by the shareholders of the mother company.

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<sup>20</sup> Corporations and partnerships where no individual is a personally liable partner

<sup>21</sup> See above definition

**Auditor's fee:** The fee is agreed with the body responsible for concluding the audit contract (normally the supervisory board). The auditor is paid from the funds of the owners/shareholders.

**Personnel rotation:** To protect the public interest for listed and very large companies, Austrian legal regulations require a rotation of the persons primarily responsible for an audit after five years. This regulation is designed to ensure the objectivity and impartiality of the certified public accountant responsible for the planning, execution and reporting on audits of financial statements.

**Audit process according to Austrian legislation:**

- 1) **Providing documentation:** The management of a company must submit the financial statements and management report to the auditor in charge. The auditor must be allowed to examine the books and documents of the company, as well as its assets and liabilities. Throughout his engagement the auditor may request all evidence considered necessary for a thorough audit.
- 2) **Reporting obligation:** If, in the course of conducting an audit, the auditor establishes any facts that raise doubts about the company's ability to continue as a going concern or which indicate a serious breach of law or of the company's articles of association, the auditor must immediately report them to the boards. He may not disclose this to the public due to his duty of secrecy. The auditor must also disclose any material weaknesses in the internal control of the accounting process (reporting obligation).
- 3) **Issuing an opinion:** Upon conclusion of the audit, the certified public accountant issues an opinion on whether:
  - the individual or consolidated financial statements comply with the statutory provision and the supplementary provision of the memorandum or articles of association;
  - generally accepted accounting principles have been complied with;
  - the published financial statements present a true and fair view of the company's financial situation and financial performance;
  - the management report is consistent with the financial statements and that the disclosures made in it on accounting-related internal control and risk management are appropriate.
- 4) **Auditor's report:** The auditor must report on the results of the audit, in writing with signature, to the legal representatives of the enterprise and to the members of the supervisory board. If the auditor agrees with the financial statements submitted by management and the presentation of the company's position they contain the judgment is positive and the auditor issues an unqualified audit opinion, the so called "auditor's report". If the auditor cannot agree a publicly available qualified or adverse opinion is issued.

5) **Filing and Publishing:** Following approval at the shareholders' meeting the financial statements, the management report, together with the audit opinion, and, if applicable, the Corporate Governance Report, has to be submitted to the Register of Firms<sup>22</sup> within nine months of the end of the fiscal year. Within the same period, the respective enterprise must file the report of their supervisory board including suggestions and decisions on further procedure following up on the auditor's report.

The supervisory board of large stock companies must also have their financial statements (including the audit opinion) published in the Viennese Gazette and provide evidence of this to the Register of Firms.

#### Focus SMEs – Financial disclosure

In Austria, regulations regarding the disclosure of financial statements and related documents vary according to the size of the entity. The legal representatives of LLCs (AGs and GmbHs) must state the size class of their enterprise to the Register of Firms, at the latest when the required documents are submitted. For small and medium AGs and GmbHs the content of filing is relaxed:

- » Large entities must file their balance sheets, income statement, notes, and management report with the court of the Companies Register. Additionally they have to publish these documents in the official gazette.
- » Medium sized entities and large GmbHs are also required to file the above mentioned documents with the Court of the Companies Register but need only publish the date of filing in the official gazette.
- » Small entities must only file their balance sheets, in an abbreviated format, and the notes with the Court.

6) **Forwarding documents:** After filing the financial statement in the database of the register of firms, the documents are electronically provided to the WKÖ, the Austrian Chamber of Labor, and the Agricultural Chambers of Austria.

The OeNB can demand the electronic forwarding of submitted financial statements to the "Bundesrechenzentrum GmbH". The National bank may forward the data to Statistics Austria under certain conditions.

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<sup>22</sup> The register of firms is administered by the Bundesrechenzentrum GmbH, a private service provider to Austrian governmental institutions, fully owned by the Republic of Austria represented through the Ministry of Finance.

## **III.C Accounting and Auditing Standard-Setting in Austria**

Authority to set accounting standards in Austria rests with the government. Austrian GAAP are established in law, specifically the UGB. The Austrian Financial Reporting and Auditing Association, a private association, acts as the advisory standard-setting body for accounting and auditing standards in Austria, particularly its Financial Reporting and Auditing Committee (AFRAC).

### **III.C.i Austrian Financial Reporting and Auditing Association**

The association's founding members include the Ministry of Justice; the Ministry of Economy, Family and Youth; the Ministry of Finance (BMWFJ); the KWT; the Institute of Austrian Certified Public Accountants (IWP); the WKÖ; the Federation of Austrian Industries (IV); the "Vereinigung Oesterreichischer Revisionsverbände"; the "Sparkassen-Prüfungsverband"; the Financial Market Authority (FMA); the "Aktuarvereinigung Österreichs"; and the Austrian Insurance Federation.

All regular members have one vote in the general assembly of the association. A board, elected at the general assembly, steers the association including the management of assets, electing or excluding members, and providing the necessary budget for AFRAC. The board consists of one representative of each general member of the association and comprises a chairman and two substitutes, a secretary, a cashier and their substitutes.

The association is financed by membership fees, donations, subventions and sponsorships, as well as income from developing expert opinions and publications.

### **III.C.ii Financial Reporting and Auditing Committee (AFRAC)**

Established by the Austrian Financial Reporting and Auditing Association, AFRAC's principal responsibility is the continuous development of national and international financial reporting standards. The committee meets at least four times a year and has an administrative office at the KWT.

The committee consists of 20 members and 20 alternate members elected by the general assembly of the association. Committee members elect their chairman and two substitutes. Members must have detailed knowledge of accounting and auditing but are recruited from many different backgrounds to represent a range of interests. They include individuals from enterprises that are audited, academics, certified public accountants, financial analysts, investors, public oversight and quality assurance authorities, banks, insurance companies, and SMEs.

AFRAC aims to:

- » provide information to its members on current developments in the area of accounting and auditing on a national, European and international level;
- » issue professional statements;
- » support Austrian representatives in international and European working groups;
- » provide expert advice to ministries in the preparation of legislative proposals (especially in regard to the implementation of European law);
- » advise and assist representatives of Austrian interests in international standard setting;
- » organize information events;
- » issue publications;
- » offer expert opinions.

AFRAC papers are developed in working groups which are open to all members of the committee.

#### **Focus SMEs - Strong standard setting entity**

The Austrian Financial Reporting and Auditing Association is made up of the key Austrian stakeholders in the field of financial reporting. Its Financial Reporting and Auditing Committee acts as the standard-setting body for accounting and auditing standards in Austria. The Committee also includes representatives of the SME sector, ensuring that their interests are considered in the decision making process of introducing new laws and regulations. All members can contribute to the process of producing the AFRAC statements and recommendations on which policy makers base their decisions.

## **IV. The Accounting and Auditing Profession and Education**

There is a distinction in Austria between the public accounting profession and self-employed accountants. According to the Austrian legal system, self-employed accountants include Certified Management Accountants, Payroll Accountants, and Certified Accountants. The public accounting profession includes tax consultants and certified public accountants (=auditors).

### **IV.A Payroll-Accountants / Certified Accountants / Certified Management-Accountants**

#### **IV.A.i Statutory framework**

Accountants in Austria must be officially approved. The Austrian legal system differentiates between three types of accountants whose fields of operation are strictly regulated:

- » Payroll Accountants
- » Certified Accountants
- » Certified Management Accountants

Of these only Certified Management Accountants may prepare the annual financial statements of a small enterprise - a corporation or partnership where no individual is a personally liable partner up to a threshold (balance sheet EUR 4.84 million, turnover EUR 9.68 million, 50 employees in average) as defined within the Austrian Commercial Code.

Two major documents set the regulatory framework:

- » Accountants Act (Bundesgesetz über die Bilanzbuchhaltungsberufe – BibuG)

The BibuG was a joint initiative of the WKO and the KWT which came into force in 2007 and has been amended a number of times since, most recently in 2012. The BibuG regulates the self-employed accounting professions in the area of bookkeeping, balancing, cost accounting, payroll-accounting, and accounting advice. It also puts into practice EU Directive 2005/36/EC on the recognition of professional qualifications, enabling foreign certified accountants to work in Austria. Furthermore the BibuG installed an examination board and a joint committee, to put the statutory provisions into practice. The BibuG also entitled the joint committee to develop a directive on professional practice.

- » Directive on professional practice

This provides a code of ethics for the profession, continuous professional development requirements, as well as measures to prevent money laundering and terrorist financing.

#### **IV.A.ii Education and qualification**

To be officially appointed as any kind of self-employed accountant applicants must meet both general and special requirements:

- » General requirements include (i) full acting capacity, (ii) special trustworthiness, (iii) stable and ordered financial conditions, (iv) a financial loss liability policy, and (v) a registered office.
- » Special requirements include the successful completion of the appropriate professional examination - this includes a written exam and an oral board exam.

Applicants must have evidence of relevant work experience (three years for Certified Management Accountants, and one and a half years for both Certified Accountants and Payroll Accountants) and are required to take an examination. There are no educational requirements for taking the exams.

Qualifications acquired elsewhere which did not include an examination board exam (see below) must be comparable in their content to be taken into account by the joint committee, the decision-making authority in this regard.

Temporary and occasional services do not need further authorization. The necessary qualification requirements are to be verified for the client/customer only. When establishing an accounting practice in Austria however, it is necessary to apply for official appointment as a certified management or payroll accountant or certified accountant and the qualification has to match national standards.

Accountancy companies need official permission to practice. At least one managing director must meet the requirements of a self-employed accountant.

All practicing registered accounting professionals are obliged to undertake continuous professional development training of a minimum of 30 x 45 minutes per year, to be verified in writing by the training provider. Training, according to the Accountants Act, is the proven participation in events that extend professional and entrepreneurial skills, and/or expand and update knowledge regarding technical and legal developments. Areas of learning are not limited but can be selected individually provided that it is subject-specific or job promoting. Providers of courses, seminars, etc. can apply in advance to the Joint Commission to have their training recognized as valid for continuous professional development. If the Joint Commission does not object within 15 working days, the provider is entitled to mark the event in his publications as 'training within the meaning of the BibuG'. Other seminars, training etc. conducted within or outside Austria can also be submitted for approval, if they meet the above mentioned requirements.

#### **IV.A.iii Quality assurance & Public Oversight**

A Joint Commission regulates and controls the obligation for accountants to take the legally required examinations, meet the quality assurance measures, and undergo an external quality control. It is governed by six members; each with a backup member. Members are appointed in equal numbers from the WKO<sup>23</sup> and the KWT for a period of six years. The commission chairmanship rotates on an annual basis between the two organizations, which also cover all the costs. The commission meets once a month. Decisions are taken by majority vote. The Joint Commission is supported by 5 full-time employees provided by both the WKO and the KWT. The BMWFJ is responsible for the oversight of the Joint Commission and approves its directives.

An examination board established at the office of the joint commission conducts the professional examinations. A chairperson and substitutes are appointed by the BMWFJ. The Federal Economic Chambers and the Chamber of Public Accountants have the right of nomination. The examination board currently comprises 48 members from all over Austria. Within the regulatory framework, the examination board defines the content and focus of the examinations and staffs the board of examiners. It additionally advises the Federal Minister, the Joint Commission, and training institutes on matters related to the examinations. Quality assurance guidelines for examiners, produced by the Joint Commission, cover the appointment of an examiner, their responsibilities, the internal sharing of experience and feedback, the verification of continuous professional development, the accreditation of exams, and the non-performance of duties.

#### **IV.A.iv Enforcement**

The Joint Commission selectively verifies compliance with continuous professional development requirements at the beginning of each year. At the first meeting of the year a selection is agreed and those individuals are notified by 31 January. Evidence for the previous year must be produced by 31 March after which they are notified by the Joint Committee whether the obligations are met or not. If they are not met, the Joint Commission can impose sanctions.

- » In the following circumstances, and providing no criminal offence falling within the remit of courts has been committed, individuals can be found to have committed an administrative offence punishable by a fine of up to EUR 20.000:
  - practicing accounting without the necessary authorization
  - the unauthorized use of a professional title
  - the violation of the obligation of discretion and confidentiality

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<sup>23</sup> Self-employed accountants are required to become members of the Austrian Federal Economic Chambers, and their respective professional associations (Professional Association of Management Consultancy and Information Technology)

- the violation of duties regarding measures concerning money laundering and terrorist financing
- the violation of the duty to use the correct professional title
- the non-fulfillment of reporting duties partly or entirely (up to EUR 30.000)
- » In case of non-compliance with continuous professional development requirements, the Joint Commission is entitled to stipulate improvements regarding the quantity and/or content of training activities.
- » In case of non-compliance with financial loss liability insurance requirements, the Joint Commission can temporarily prohibit working in the accounting profession. This decision can be appealed.
- » The Joint commission also has the authority to refuse official permission to practice.

Individuals can also ask to be checked if they need confirmation of their entitlement to practice.

#### **Focus SMEs – Self-employed Accountants**

A strict regulatory framework, together with strong quality control and public oversight, fosters high quality accounting for enterprises that outsource their bookkeeping and balancing work to external service providers and creates confidence in the accuracy of the financial data provided among third parties (financial institutions, etc.).

## **IV.B Certified Public Accountants**

### **IV.B.i Statutory Framework – The EU Acquis Communautaire<sup>24</sup>**

The EU Directive on statutory audits of annual accounts and consolidated accounts (2006/43/EC) sets out the minimum education and training requirements for certified public accountants:

- » The education and training cycle includes university entrance or the equivalent level at the start, the completion of theoretical instruction, three years of practical training (some of which must be with a statutory auditor or audit firm) and a final examination of professional competence equivalent to university degree level. The directive lists curriculum subjects for theoretical instruction, including accounting, auditing, tax, civil, commercial, and company law.

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<sup>24</sup> This section draws on information from the CFRR “Guide to Corporate Sector Accounting and Auditing in the Acquis Communautaire” (CFRR, 2011).

- » Statutory auditors must undergo continuing professional development to maintain their approval and registration.

According to EU law certified public accountants must be registered in an electronically accessible public register before they can conduct statutory audits. The directive also requires the approval and registration of audit firms. It sets out restrictions on the ownership and management of audit firms:

- » Natural persons having the relevant knowledge (or, should member states decide so, statutory auditors) or other audit firms must have a majority of the voting rights and represent a majority of members in the administrative or management body. The majority threshold should not exceed 75% in the latter case.
- » Member States must allow statutory auditors or audit firms approved in other member States to own and manage audit firms. Statutory auditors carrying out an audit on behalf of an audit firm should always be approved and registered in the host member state.

#### **IV.B.ii The Statutory Framework in Austria**

There are two main documents that influence the education and qualification standards of Certified Public Accountants in Austria: The Public Accountants' Statute of Professional Practice (Wirtschaftstreuhandberufsgesetz - WTBG), and the directive on the practice of the public accounting professions (Wirtschaftstreuhandberufs-Ausübungsrichtlinie - WT-ARL).

- » The WTBG came into force in 1999 and has been amended several times since then, most recently in 2012. It regulates the profession of chartered accountants including admission to and the nature and scope of the professional examinations, and the framework for professionalism of the public accounting professions. It also contains provisions on the KWT, its bodies and organization. The WTBG authorized the KWT to develop and issue a directive on professional practice.
- » The WT-ARL came into force in 2003 and has been amended several times since then, most recently in 2011. It mainly deals with issues regarding professional ethics, bias, protection from the influence of organized crime, and prevention of money laundering and terrorist financing. It also includes a paragraph on continuous professional development obligations.

In Austria certified public accountants must have a relevant<sup>25</sup> degree from a university or a university of applied sciences as well as a minimum of three years<sup>26</sup> of work experience as

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<sup>25</sup> The degree has to comprise at least six semesters to complete (=180 ECTS credits) and consisting of at least 800 teaching units of 45 minutes in the following areas: business accounting, including Austrian and international accounting standards; Austrian and international tax law; additional areas of law; and additional areas of economic sciences.

auditors-in-training registered with the KWT. If an applicant fulfills these criteria, it is possible to register for the professional examination.

The KWTs' official training institute, the Academy of Public Accountants, offers preparation courses at different locations in Austria.

The professional examination for certified public accountants consists of a written and an oral part. The written part comprises five<sup>27</sup> tests: accounting, auditing, jurisprudence, business administration and fiscal law. The subjects of the oral exam additionally include the law of professional practice of public accounts; the principles of economics, finance, banking, insurance, securities and foreign exchange law; and quality assurance and risk management.

After passing the examination and taking the professional oath before the BMWFJ, a certificate of appointment is issued to the candidate.

The certification procedure is organized by the KWT. An examination board within the KWT administers the professional examination. The board consists of a chairperson (appointed by the BMWFJ) and substitutes (jointly appointed by the KWT and the Ministry of Finance) and examiners from various specific backgrounds. The board has a quorum with the chairperson, or substitutes, and at least 5 examiners present.

Throughout their career certified public accountants in Austria must continuously complete further training. Since 2005, certified public accountants who perform audits of financial statements are legally obliged to ensure high audit quality in their professional practice and to have it reviewed regularly. Certified public accountants and all their professional employees are required by law to undergo training and continuing education which is reviewed annually. Certified public accountants must complete a total of 120 hours and 45 minutes, distributed over three years (with a minimum of 30 hours per year) in relevant advanced training courses, which can include private study (no more than 10 hours per year). Up to 20 hours per year can be credited for specialized and relevant work undertaken.

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<sup>26</sup> Passing the professional examination for tax consultants reduces the obligatory time of full-time professional experience to 2 years.

<sup>27</sup> Tax advisors and other candidates who have already passed the examination for tax are not required to do the tests in business administration or tax law, and can also skip parts of the oral professional examination.

## V. The Quality Assurance & Public Oversight System

### V.A Statutory Framework - The EU Acquis Communautaire<sup>28</sup>

According to the 8<sup>th</sup> Directive each Member State shall establish an independent system of quality assurance covering all statutory auditors and audit firms in compliance with the functional criteria of the directive. The 8th Directive defines the scope of the quality review/inspection as an assessment of compliance with auditing standards and independence requirements, and defines the quantity and quality of the resources to be used.

Quality assurance must take place at least every six years (every three years for statutory auditors of public interest entities), with the overall results being published annually and, where needed, followed up on.

In 2008 the Commission issued Recommendation 2008/362/EC which provides guidance for implementing independent quality assurance systems for statutory auditors and audit firms conducting an audit of public interest entities.

Each Member State must establish an effective system of public oversight in compliance with the functional criteria of the 8<sup>th</sup> directive. This system is to be governed by non-practitioners knowledgeable in areas relevant to statutory audit and subjects all statutory auditors and audit firms to public oversight.

Article 5 of the Statutory Audit Directive stipulates the conditions under which a member state shall withdraw approval of a statutory auditor. They address circumstances in which either the good repute of a person or firm has been seriously compromised, or conditions that relate to the ownership of statutory audit firms. Member States are, however, given the option to provide for a reasonable period of time to meet the requirements of good repute or fulfill the necessary conditions in regard to the ownership of audit firms.

Where the approval of a statutory auditor or of an audit firm is withdrawn for any reason, the competent authority of the member state where the approval is withdrawn shall communicate that fact and the reasons for the withdrawal to the relevant competent authorities of member states where the statutory auditor or audit firm is also approved.

Chapter VII of the Statutory Audit Directive stipulates investigations and penalties applicable to statutory auditors. Article 30 regulates the systems of investigations and penalties.

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<sup>28</sup> This section draws on information from the CFRR “Guide to Corporate Sector Accounting and Auditing in the Acquis Communautaire” (CFRR, 2011).

## V.B The Statutory Framework in Austria

The legal basis for the Austrian Quality Assurance and Public Oversight System is set out in the law on Audit Quality Control (Abschlussprüfungs-Qualitätssicherungsgesetz - A-QSG), which came into force in 2005, and the Abschlussprüfungs-Qualitätssicherungsrichtlinie (A-QSRL), which came into force in 2006.

- » The A-QSG established two bodies that play a role in the external audit quality control system of Austria which regulate the obligation of auditors and audit firms to undergo legally required examinations, to meet quality assurance measures, and to regularly undergo an external quality audit.
- » The A-QSRL regulates the structure of the quality assurance system as well as the establishment of a public registry listing all statutory auditors and audit firms that have had an external quality assessment and possess a valid certificate.

Sanctions and disciplinary procedures are set out in Austria in the UGB, the A-QSG and in the Wirtschaftstreuhandberufegesetz (WTGB). In addition, provisions are in the cooperative law revision (GenRevG) and the Savings Bank Act (DDA). The rules are contained in the Austrian legal system in the form of statutory provisions.

## V.C Quality Assurance

**The AeQ:** The Austrian Committee for External Quality Inspections (Arbeitsausschuss für externe Qualitätsprüfung - AeQ) is responsible for the implementation of the external quality assurance system.

The AeQ comprises seven members who each have a back-up member. Four members are appointed by the KWT, and three by both the Vereinigung Oesterreichischer Revisionsverbände and the Sparkassen-Prüfungsverband<sup>29</sup>. Members are appointed for a period of four years and must be practitioners. Members of the AeQ act on an honorary basis, i.e., only their out-of-pocket expenses are reimbursed.

**Quality reviews:** All statutory auditors and audit firms that perform statutory audits in Austria are subject to quality reviews at least every six years. Auditors of public interest entities (PIEs) are subject to quality reviews at least once every three years.

The external quality assurance system builds on external quality control inspections of certified public accountants which must evaluate:

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<sup>29</sup>This Prüfungsverband was established by all the country's savings banks (Sparkassen) to audit those savings banks.

- » the quality of the internal quality control system;
- » the quality of activities conducted to maintain generally accepted accounting principles, professional ethics, and professional conduct;
- » compliance with law and professional standards;
- » audit evidence and related judgments;
- » risk assessment;
- » analytical procedures;
- » test of controls;
- » related parties;
- » subsequent events;
- » documentation;
- » consultation;
- » ethical standards – independence issues;
- » audit risk and fraud standards;
- » audit report;
- » and closing of the audit file (archiving).

**Process:** When auditors or audit firms need to undergo an inspection, they will ask for proposals from three approved inspectors. The AeQ maintains a list of statutory auditors who are authorized to conduct inspections. They need to have at least five years of professional experience, specific training, or relevant experience in quality inspections. The AeQ appoints the inspector based on the three proposals and can demand amendments to the proposals if it finds it necessary. If the AeQ and the auditor or audit firm to be inspected cannot agree on the proposals from the three approved inspectors, it is brought to the Audit Quality Control Oversight Authority (QKB) for a decision. The appointed inspector prepares an inspection report based on an established mandatory minimum table of contents and issues a report assessing whether the internal quality assurance measures adopted by the inspected auditor/audit firm are:

- » adequate;
- » adequate subject to weaknesses (in which case weaknesses must be described and remedial recommendations made); or
- » inadequate (in which case evidence supporting the conclusion must be provided).

The AeQ evaluates this inspection report. When the inspection results in an “adequate” or “adequate subject to...” report, the AeQ normally issues a certificate to the inspected auditor or audit firm that permits further audits until the next inspection (i.e., it is valid for three or six years) subject to implementing the recommended actions in a timely manner.

**Financing inspections:** Under the current regime, auditors or audit firms pay for their inspections. The inspection fees are set out in the three proposals.

## V.D Enforcement

### V.D.i Austrian Committee for External Quality Inspections

With the amendment to the Law on Audit Quality Control in 2010, the AeQ also became a penal authority. In Austria each auditor or audit firm must have a certificate issued by the AeQ that confirms their authorization to perform audits.

A fundamental sanction is therefore the denial of such a certificate by AeQ. If the auditor or audit firm is found to have deficiencies in their quality assurance system or in the performance of an audit, modest remedial measures will be imposed and additional inspections of the auditor and audit firm will be performed. Under certain conditions it can lead to a revocation of the certificate. Where there are severe grounds for exclusion and other breaches of duty a withdrawal of the certificate can be made.

The A-QSG can impose the following sanctions and disciplinary measures:

- » to the extent that the infringement does not fall within the explicitly defined categories of infringements provided for within the appropriate legislation, fines of between Euro 400 – 5,000 are imposed on auditors and audit firms who, for example:
  - provide no written information to the quality control authority;
  - conclude a contract to perform an audit without a certificate required;
  - do not provide written evidence of remedial actions addressing issues raised by the external quality review within the specified time limit; or
  - contravene a reporting requirement imposed.
- » to the extent that the infringement does not fall within the explicitly defined categories of infringements provided for within the appropriate legislation, fines of between Euro 5,000 – 50,000 are imposed on auditors and audit firms who, for example:
  - perform audits without a valid certificate;
  - do not provide the responsible authorities with requested information or requested documentation;
  - provide the responsible authorities with false or incomplete information; or
  - do not permit the entry onto their premises of the responsible authorities, the investigative body or experts.

Should auditors or audit firms breach their professional responsibilities, members of the KWT and the IWP<sup>30</sup> are also subject to sanctions by these professional organizations, including fines, temporary suspension, or permanent exclusion from the profession.

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<sup>30</sup> The Institute of Austrian Certified Public Accountants is a voluntary association of certified public accountants in Austria, with currently around 800 members (natural and legal persons).

Under the WTBG, the KWT is responsible for disciplinary matters, for example issuing warnings to members for a failure to meet their professional obligations or revoking their permission to practice following a related breach of the law. The WTBG regulates the jurisdiction of disciplinary proceedings, investigations, orders etc. The first step in disciplinary proceedings is to issue a warning. If this is not effective, the second step is to impose a fine. The amount of the fines depends on the damages caused and will normally be in the range EUR 7,268 - EUR 14,536. The penalty for professional malpractice is determined in the first instance by the disciplinary procedures and in the second instance by the Chamber's Disciplinary Board. Procedures are regulated in detail and include: a commission of inquiry, defense, assessment of damages, appeals, and the enforcement of findings.

#### V.D.ii Austrian Review Panel for Financial Reporting

In 2013 Austria was the last country in the European Union to establish a formal IFRS enforcement process regarding the financial reporting of companies with securities traded on a regulated market. Based on the German model, Austria implemented a two-tier enforcement system involving the newly established Austrian Review Panel for Financial Reporting (OePr) and the FMA, which has sovereign authority. To verify the compliance of accounts with the IFRS, the FMA draws on assistance from the Austrian Review Panel for Financial Reporting.

The OePr is approved by the Federal Ministry of Finance. Responsibilities within the enforcement process are shared between the review panel and the FMA:

- » the review panel assists the FMA to verify the compliance of accounts with the IFRS and ensures that financial statements have been drawn up in accordance with the applicable accounting standards,
- » the FMA decides on enforcement priorities and audit plans.

To keep companies informed and allow them to prepare for upcoming examinations the FMA, amongst other things, published six priority areas to be reviewed in accounting control. In addition to impairment (valuation of bank liabilities, goodwill, intangible assets) they include fair value measurement and other areas arising mainly from new standards.

For 2014, about 30 individual reviews have been scheduled. Above that, where there are specific grounds, a special review held due to public interests can examine any area.

#### V.E Public Oversight

The QKB, which is based at the BMWFJ, is the country's highest-ranking authority responsible for the oversight of the Austrian audit quality oversight system.

The responsibilities of the QKB include:

- » Overseeing the appointment of approved inspectors;
- » ruling on appeals;
- » monitoring the ongoing appropriateness and effectiveness of the external audit quality control system;
- » making recommendations on how the external audit quality control system could be enhanced;
- » preparing an annual report that is publicly available; and
- » maintaining the public register of auditors.

The QKB is governed by six members; each has a back-up member. Members are exclusively non-practitioners appointed for a period of six years by the BMWFJ. They act on an honorary basis, i.e., only their out-of-pocket expenses are reimbursed. The QKB is supported by civil servants employed by the Ministry and includes four civil servants who also have other responsibilities within the Ministry and are, therefore, not full-time QKB staff members.

The QKB publishes an annual report including:

- » a description of the QKB;
- » the statutory framework underpinning the QKB; and
- » an activity report, including
  - summary of the QKB's duties,
  - QKB meetings,
  - QKB decisions,
  - implementation of the public register,
  - staffing and budget,
  - European representation,
  - transposition of the Directive,
  - international cooperation, and
  - recommendations for further developments.

There is no specific relationship between the QKB and the audit profession. Approved inspectors are, however, licensed auditors who have passed specific exams and must keep their knowledge up to date.

The Austrian Public Oversight and Quality Assurance system is financed by contributions from the KWT and the Revisionsverbände<sup>31</sup> except for the inspections themselves.

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<sup>31</sup> This association is a legally recognized platform for the so-called *Revisionsverbände*, which audit cooperatives within Austria. These *Revisionsverbände* comprise approximately 280 statutory auditors.

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## Annex - Methodology

### Types of action performed

In the course of assessing the Austrian financial reporting environment, four different types of action were performed:

- » Desk research following ROSC methodology, consisting of an inventory aimed at collecting information on the current Austrian framework for corporate financial reporting in general and in particular on those areas that are of particular importance for SMEs. This information comprises both a description of the accounting and auditing environment in force and an identification of the good accounting practices.
- » A survey, based on questionnaires, aimed at collecting data on the experience of the Austrian SME sector with corporate financial reporting practices: In cooperation with the Austrian Institute for SME Research an online survey was created with Lime Survey – an open source tool for the development of online surveys. On October 16th, 2012 the invitation to participate in the survey was sent to about 17,300 e-mail addresses from the address database provided by Herold Business Data GmbH. Around 1,000 e-mail invitations were not delivered due to wrong or invalid addresses. On November 5th, 2012 a reminder was sent to all enterprises that had not returned the completed questionnaire. The online survey was available until November 12th, 2012. Finally, 786 surveys were completed properly and were used for the analysis. It was not a requirement that all questions had to be answered and questionnaires where at least two-thirds of all questions were answered were included in the analysis. All results have been weighted by industry and by the number of employees according to the basic company population in Austria. Data analysis has been carried out using IBM SPSS Statistics 19.
- » A survey, based on questionnaires, to gain insight into banks' requirements and expectations regarding scope and quality of financial information provided by SMEs when applying for credit: A questionnaire was developed with Microsoft Office Word 2007. On September 17th, 2012 the Industry Sector Bank and Insurance of the Austrian Federal Economic Chamber (BSBV) invited all Austrian credit institutions to participate in the survey. An invitation including the Word-file to complete was sent to e-mail addresses from the member database of five of the seven Trade Associations of the BSBV: the "Fachverband der Banken und Bankiers", the "Fachverband der Volksbanken", the "Fachverband der Landes-Hypothekenbanken", the "Fachverband der Sparkassen", and the "Fachverband der Raiffeisenbanken". The deadline for answering the questionnaire was October 19th, 2012. Finally, 10 surveys that had been properly completed were used for the analysis. Respondents to the survey represent approximately one third of the sector based on total assets. Data analysis has been carried out with Microsoft Office Excel.

- » Semi-structured interviews with representatives of relevant public authorities, professional associations, national committees, experienced banking professionals, and professional service providers, clarified details gained from the surveys and the desk research.

### Definition of an SME

This report focuses on SMEs. According to an EU recommendation, the number of persons employed and either the level of turnover or the size of the balance sheet determine whether a company is a micro, small or medium-sized enterprise (together these make up the SME sector) or a large enterprise. These limits apply to autonomous companies only. This means that the company is not a partner or linked to other companies.

**Table 1 - Thresholds of the SME definition by EU recommendation**

|                                    | Persons<br>employed | Turnover (in €<br>Million) | or | Balance sheet (in €<br>Million) |
|------------------------------------|---------------------|----------------------------|----|---------------------------------|
| <b>Micro enterprise</b>            | < 10                | ≤ 2                        |    | ≤ 2                             |
| <b>Small-sized<br/>enterprise</b>  | < 50                | ≤ 10                       |    | ≤ 10                            |
| <b>Medium-sized<br/>enterprise</b> | < 250               | ≤ 50                       |    | ≤ 43                            |

(European Commission, 2013)



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