

Company & Commercial - Sweden

Further simplifications: voluntary audit for small companies

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Background

All limited companies, foreign branches, economic associations, foundations and some general partnerships – regardless of size and revenue – are required to have an auditor, as are larger not-for-profit organizations and sole proprietorships. The Swedish requirement is in contrast to nearly all other member states of the European Union, which have exempted small companies from an audit requirement.

In late 2007, as a first step in the legislative process, the government appointed a commission of inquiry tasked with proposing amendments to the Companies Act (2005/551) in order to simplify matters for limited companies. The commission submitted an interim report regarding a reduction in the required minimum share capital and a final report entitled "Simplifications in the Companies Act". The proposals in the interim report have recently been adopted (for further details please see "[Simplified rules for limited liability companies](#)"). Further legislative changes are likely to be introduced in order to ease the administrative burden on small companies in particular. One step in this direction is a recent government bill which aims to establish a voluntary audit scheme, thus enabling a vast majority of mainly limited companies to opt out of the auditor requirement.

Proposed changes

The bill proposes that small companies which would normally be subject to an audit requirement may opt out, either when incorporated or by a subsequent decision. However, the bill recommends that three threshold requirements be set:

- the number of employees on average must not exceed three people;
- the total assets must not be more than Skr1.5 million; and
- annual sales must total no more than Skr3 million.

Thus, if a limited company, a general partnership in which one or more legal persons are partners or a foreign branch meet more than one of the above thresholds for each of the previous two fiscal years, it is still required to have an auditor.

For general partnerships with only natural persons as partners, not-for-profit organizations and sole proprietorships, the requirements are reduced in comparison with the existing rules. Such companies are required to have an auditor only if:

- the number of employees on average does not exceed 50 people;
- the total assets do not amount to more than Skr40 million; and
- annual sales total no more than Skr80 million.

The bill recommends no changes regarding economic associations and foundations, which will still be required to have an auditor. The amendments are proposed to come into force on November 1 2010. Under the transitional rules, a limited company which does not meet the threshold requirements for audit may opt out from the first fiscal year that begins immediately after October 31 2010.

Comment

The proposed changes are part of one of the largest regulatory overhauls of Swedish company law in modern times and will affect around 250,000 limited companies (ie, around 75% of such companies), around 14,000 general partnerships and a number of

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foreign branches.

It is difficult to predict how many companies will choose to opt out. Figures from the Danish Commerce and Companies Agency show that only 23% of all eligible companies opted out when a similar reform took place in Denmark. However, according to the Finnish National Board of Patents and Registration, more than half of all newly incorporated limited companies have chosen to not register an auditor since the Finnish reform in 2007. Based on these figures, it may be reasonable to predict that most companies which already have an auditor will continue as before, while new companies will be more likely to exercise their right to opt out.

The future will also tell if the audit requirement will be imposed by banks and other creditors, rather than by law. Since a newly incorporated company may – regardless of size and revenue – choose to be without an auditor for at least two fiscal years, it is conceivable that an audit requirement will constitute part of most standardized loan forms. Other creditors (eg, suppliers) are unlikely to act with the same thoroughness upon default, making it more important to maintain solid operational due diligence towards all business partners.

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