

Accounting and Verification of the Financial Statement by Auditor in the Slovak Republic

Alžbeta Suhányiová

University of Prešov in Prešov
Faculty of Management
Konštantínova 16, 080 01 Prešov
Slovak Republic

Ladislav Suhányi

University of Prešov in Prešov
Faculty of Management
Konštantínova 16, 080 01 Prešov
Slovak Republic

Abstract

The aim of a paper is to inform readers about the accounting models and verification of the financial statement by auditor in the Slovak Republic. The paper analysis the accounting legal regulations, accounting entities mandatory conducting bookkeeping, development of the economic subjects according to the legal forms in the Slovak Republic since EU accession in 2004, regulations dealing with the accounting financial statements and comparison of financial statements' parts conducted according to IFRS, US GAAP, and the Slovak directions. Mandatory criteria for constituting the financial statements are characterised as well. On a basis of the accounting entities' research both mandatory and voluntarily conducting the financial statements according to IFRS, tables summarise numbers of the accounting entities conducting the financial statements according to IFRS. Within the research, we did not exclude the problematic of the financial statements audit, since audit and accounting closely relate with each other. Audit increases trustworthiness of the accounting of given accounting entity.

Keywords: accounting in Slovak Republic, financial statements, verification of financial statement

Introduction

The accounting has formed into the specific economic discipline during the long historical development. It has become a communication tool of financiers and managers and a source of the economic information for financial management and decision-making. It is a co-creator of the effectiveness of trading accounting entity economic activity, because it is capable to display its progress and results in full, to discover problems and to provide records for an effective financial management of the entrepreneurial subject itself as well as for further accounting information users.

Accounting is a decisive source of financial information for the financial management. Accounting is in constant development; it is continuously influenced by transnational directions followed by national legislation that is also constantly amending conforming to the requirements of development of activities displayed by accounting (Mihaliková et al., 2011, p.6).

1. Accounting System in the Slovak Republic

Change in the economic-policy conditions **after 1989** in the Middle- and Eastern Europe brought the need to constant economic switch from centrally planned to the market economy. New businessmen and private ownership occurred in the economy. Conversion of the economic mechanism in the Slovak Republic was inspired by soviet "perestrojka". It was necessary to privatise state sector and to make the economic openness (Suhányiová, 2011, p.16). Such a change necessarily required also a change of Slovak accounting character and function. These necessities occurred in new accounting system based on an **Act No. 563/1991 Coll. on Accounting valid since January 1st, 1993.**

This Act significantly changed the accounting philosophy reflecting principles valid for the market economy. It was the first Act on Accounting. It was amended for several times in order to approximate the basic EU directions on accounting, especially the fourth, seventh, and eighth one.

Slovak Republic aiming to reach comparability of basic legal accounting principles with relevant EU directions and in order to allow International Accounting Standards use in given cases, prepared new **Act No. 431/2002 Coll. on Accounting** (hereafter referred to as the „Act on Accounting“) valid since January 1st, 2003, thus cancelling so-far valid Act 563/1991 Coll. on Accounting in full. This Act was also amended for several times.

The Act on Accounting and **Decrees of the Ministry of Finance of the Slovak Republic** regulate the administration of accounting and financial statements for every type of the trading entities and organisations.

Subjects mandatory to conduct accounting and financial statements are considered to be accounting entities. **The accounting entities** in the Slovak Republic are:

- **corporations** seated in the Slovak Republic,
- **foreign persons** trading at the territory of the Slovak Republic or performing other activities according to special regulations (such as Act on Foundations),
- **natural persons** trading or performing self-entrepreneurial activities, showing their expenses spent on reaching, ensuring or maintaining profit in order to evaluate Income tax, with the exception of natural persons conducting taxation records according to an Act on Income tax.

Table 1: Development of the economic subjects in the Slovak Republic since EU accession

Economic subjects according to judicial form	2004	2005	2006	2007	2008	2009	2010	2011
Total subjects in SR	474 663	493 871	527 486	549 413	588 181	593 219	607 397	612 412
Total corporations	114 285	126 777	139 240	149 772	169 960	179 352	197 089	210 087
Total enterprises	74 207	83 710	93 411	101 574	119 933	127 409	143 001	153 881
Trading companies	67 143	76 632	86 317	94 575	112 149	119 268	134 336	145 110
Joint-stock companies	4 341	4 598	4 786	4 972	5 227	5 358	5 547	5 616
Limited liability companies	61 919	71 152	80 638	88 760	106 017	112 997	127 778	138 395
Cooperatives	1 564	1 542	1 501	1 492	1 535	1 553	1 580	1 573
State enterprises	35	30	22	21	23	23	21	20
Foreign persons	1 516	1 565	1 652	1 723	2 389	2 755	3 065	3 318
NP-entrepreneurs written in CR	1 894	1 817	1 783	1 644	1 738	1 651	1 721	1 576
Non-profit institutions	40 078	43 067	45 829	48 198	50 027	51 943	54 088	56 206
Budget organisations	6 612	6 654	6 649	6 643	6 592	6 643	6 662	6 615
Contribute organisations	962	895	816	792	751	726	717	701
Other non-profit institutions	32 504	35 518	38 364	40 763	42 684	44 574	46 709	48 890
Natural persons – total	360	367	388	399	418	413	410	402
entrepreneurs	378	094	246	641	221	867	308	325
Tradesmen	336 640	344 870	364 185	374 382	392 841	387 876	384 202	375 722
Free jobs	13 683	12 752	15 175	16 725	17 189	17 974	18 378	19 069
Self-farmers	10 055	9 472	8 886	8 534	8 191	8 017	7 728	7 534

Source: Statistical Office of the Slovak Republic, 2012

The subject of the accounting includes

- accounting for accounting transactions (bookkeeping; an accounting entity is required to maintain books as a system of accounting records), and
- financial statements.

Act on Accounting distinguishes two accounting systems:

1. the system of double entry bookkeeping,
2. the system of single entry bookkeeping.

The system of double entry bookkeeping is a basic system of the accounting and for all accounting entities mandatory. Act gives the exemptions and opportunities for accounting entities to account in a single entry bookkeeping system. These are mostly accounting entities and entrepreneurs – natural persons not written down in a Commercial Code (Suhányi & Želinský, 2008, p.52).

2. Financial Statements

Financial statements are defined in Article 17 (1) of the Act on Accounting as follows: Financial statements constitute a structured presentation of facts subject to accounting and are provided to those who use this information (hereafter referred to as “users”).

The accounting entity is mandatory to conduct financial statements no later than *six months* from date of the financial statements’ constitution.

Financial statement in double entry bookkeeping system involves except of general content also these parts (Soukupová et al., 2008, p.62):

- **Balance Sheet,**
- **Income Statement,**
- **Notes.**

Table 2: Comparison of financial statement parts conducted according to IFRS, US GAAP, and Slovak legislation

IFRS*	US GAAP**	Slovak legislation
1. Statement of Financial Position	1. Balance Sheet	1. Balance Sheet
2. Statement of Comprehensive Income (Income Statement)	2. Income statement	2. Income Statement
3. Statement of Changes in Equity	3. Statement of Shareholder Equity	3. Notes to the Financial Statements, must also contain the following: <ul style="list-style-type: none"> • Information on cash flows • Information on movements equity
4. Statement of Cash Flows	4. Statement of Cash Flows	
5. Notes to the Financial Statements, including a summary of the significant accounting policies	5. Notes to the Financial Statements	

*IFRS – International Financial Reporting Standards

**US GAAP – United States Generally Accepted Accounting Principles)

Source: Own elaboration

Act on Accounting declares a basic accounting principle in the market economy: **true and fair view**. Information in the financial statement must be useful for user. The usefulness of information represent their qualitative characteristics.

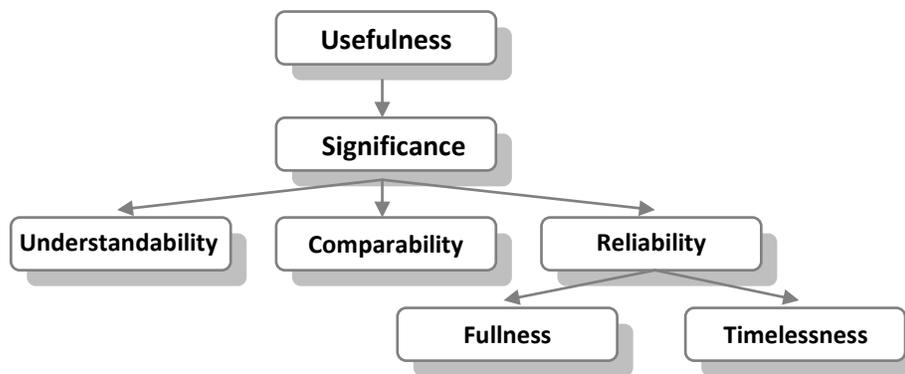


Figure 1: Qualitative characteristics of information in the financial statement.

Source: Own elaboration

3. Financial Statements According to IFRS

The accounting entities completing the consolidated financial statements in the Slovak Republic are **mandatory to apply IFRS accepted by the European Committee.**

Parent accounting entity has a duty to complete the consolidated financial statements in the following accounting period if, according to data from last individual financial statements of parent accounting entity and individual financial statements of subsidiary accounting entities on all levels of consolidation, in every from two consecutively following accounting periods were fulfilled at least two of these conditions:

- a) total equity value of parent accounting entity and of subsidiary accounting entities is higher than 17 mil. Euro,
- b) net turnover of parent accounting entity and of subsidiary accounting entities is higher than 34 mil. Euro,
- c) average calculated number of employees of parent accounting entity and of subsidiary accounting entities within the accounting period exceeded 250.

Table 3: Position of parent accounting entity

Parent accounting entity = corporation, state enterprise, cooperative, public administration accounting entity having in another business company:	
a)	majority of voting rights or
b)	right to appoint (withdraw) majority of statutory or control bodies and at once is its partner or an official or
c)	right to administer the accounting entity of which is a partner/share holder on a basis of a deal/contract/statutes or
d)	is a partner/share holder and majority of statutory/control bodies' members (performing their function during the accounting period and in immediate former accounting period up to consolidated financial statement conduct) were appointed exclusively by exercising the voting rights of a partner/share holder that is a parent accounting entity or
e)	is a partner/share holder and majority of voting rights has on a basis of deal with its another partners/share holders

Source: Own elaboration

Except of the accounting entities completing the consolidated financial statements, **completes the individual financial statements according to IFRS:**

1. **mandatory** the accounting entity such as bank, subsidiary of foreign bank, National Bank of Slovakia, Export-Import Bank of the Slovak Republic, administration company, subsidiary of administration company, insurance company, subsidiary of foreign insurance company, Health-insurance company, Pension Administration Company, Stock-exchange company, Central Securities Depository, The Slovak Rail-ways.

2. **mandatory** accounting entity not stated in former point if it is a company¹ that at least two continuously following accounting periods fulfilled at least two of these conditions:
 - a) total equity value exceeded 165 969 594,40 Euro,
 - b) net turnover exceeded 165 969 594,40 Euro,
 - c) average calculated number of employees in every accounting period exceeded 2 000.
3. **voluntarily** the accounting entity:
 - a) that issued the securities and these were traded on regulated market in the accounting period and does not fulfil size criteria, and if so decided.
 - b) that is a broker institution or a subsidiary of foreign broker institution, and if so decided.

According to valid criteria, the most of accounting entities in the Slovak Republic belong to small and medium enterprises, which are obliged to complete the financial statements according to valid Slovak national regulations. The following table presents the number of accounting entities completing the financial statements according to IFRS in the Slovak Republic.

Table 4: Accounting entities completing financial statements according to IFRS

Accounting entities at the territory of the Slovak Republic completing financial statements according to IFRS	Anticipated number of the accounting entities
Accounting entities completing the consolidated financial statements according to IFRS	50-100
Accounting entities mandatory completing the individual financial statements according to IFRS	150
Accounting entities voluntarily completing the individual financial statements according to IFRS	250

Source: Own elaboration

4. Verification of Financial Statement by Auditor

Annual individual financial statement and extraordinary individual financial statement must be verified by auditor in the following accounting entities:

- a) joint-stock company, limited liability company, limited partnership company, public business company and cooperative if on the date of financial statement completion and for immediate former accounting period are fulfilled at least two of these conditions:
 1. total equity value exceeded 1 mil. Euro,
 2. net turnover exceeded 2 mil. Euro,
 3. average calculated number of employees in every single accounting period exceeded 30,
- b) business company (joint-stock company, limited liability company, limited partnership company, public business company and cooperative) whose securities were accepted on regulated market,
- c) to which such requirement is stated by special regulation (such as state enterprises, foundations),
- d) which completes financial statements according to IFRS (such as banks, insurance companies, assurance companies, big accounting entities, administration companies).

In the Slovak Republic, 824 active auditors out of total 1032 registered auditors and 238 active auditing companies out of 347 registered auditing companies performed by May 1st, 2012. The euro auditors, auditors from the third countries, auditing companies from the third countries or EU member state auditing companies are also allowed to exercise the auditing profession in the Slovak Republic after fulfilling stated criteria in Act on auditors.

¹ The Slovak Commercial Code defines four types of companies: a joint stock company; a limited liability company; a limited partnership; and a general partnership.

Table 5: Division of auditors according to the form of audit performance

Form of audit performance	Number
Active auditor in auditing company	422
Active auditor as a self-employed person	402
Total	824

Source: Own elaboration based on the data from Office of Audit Oversight. (2011)

The price of audit depends on risk that auditing company must undergo and on complexity of the accounting entity. The price varies in these intervals:

- price 3 000 – 6 000 Euro: entrepreneurial subject with number of employees over 30 and turnover over 1 mil. Euro,
- price 8 000 – 14 000 Euro: entrepreneurial subject with number of employees around 250 and turnover around 12 mil. Euro.

Audit represents a fundamental change in the attitudes of the organization and in the conduct of the accounts. Audit activity helps enterprises to improve their financial situation, contributes to a better perception of the business entity to the customers and employees of the credibility of the accounts and to higher loyalty of the business entity. The Audit ensures total protection of the company.

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