

Public interest entities in the context of accounting and auditing legislation in the wake of the globalization process

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Abstract. Public interest entities are understood to be accounting units that are governed by the accounting legislation as well as auditing legislation. Both regulations, however, define differently the public interest entities. Part of the public interest entities are treated equally in both legislations and are considered to be public interest entities and some of them do not. This is different depending on the specific legal regulation. While accounting and auditing are separate areas of research, there is a link between them and auditing is significantly dependent on accounting because its role is to examine and analyze the accounting of a particular entity. Due to their interconnection as well as to the area of investigation itself, it would be appropriate for both legislation to treat the same group of entities as public interest entities as the individual regulations have specific requirements for this group of entities, which are public interest entities. Our aim is to clarify and present the issues in question in terms of accounting and auditing with emphasis to express its own conclusions. In order to fulfill our stated goal, we apply a method of comparison, analysis, deduction, through which we present the definitions of public interest entities in terms of accounting and auditing legislation, compare and analyze them. Finally, we formulate our own view of which entities should be considered public interest entities.

1 Introduction

Accounting is a comprehensive system through which the accounting information is collected, recorded, classified, summarized, interpreted and transmitted to all its users, whether from an internal or external environment, so that decisions can be made on

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the further development of the business. The objective of accounting is to give a true and fair view of the entity's financial, financial and income situation. Accounting through financial statements provides information about the financial position, profitability (financial performance) and changes in the financial position of an entity for a certain period of time in monetary terms to various users making economic decisions based on them [6, 7, 11, 13, 20]. The information needs of individual user groups are diverse [2, 10] and increasingly increasing and becoming more demanding [8] and often conflicting. [21, 22]. It is therefore necessary to present all business transactions in the form of financial statements [15]. That is why legislation, not only in the field of accounting, but also in the field of audit, finds its justification, since some entities are obliged to have audited financial statements. The accounting is regulated in the Act no. 431/2002 Coll. on Accounting, as amended (hereinafter referred to as the Accounting Act). According to § 1 par. 1, par. a) of the Act on Accounting [23] means:

- legal entities having their registered office in the territory of the Slovak Republic,
- foreign persons, if they carry on or pursue other activities in the territory of the Slovak Republic according to special regulations,
- natural persons pursuing or pursuing another self-employed activity if they prove their expenses incurred in obtaining, securing and maintaining income for the purpose of determining the income tax base.

2 Methods

In today's dynamically evolving world as a result of the globalization process, there is always room for improvement in terms of corporate governance. It is management that has the ultimate responsibility for the management, development and prosperity of the entity. Many times, management does not fully realize its potential [9] and ultimately does not have an objective and correct assessment of the entity's operations. At this point, an audit is in place that can help to solve this situation effectively and effectively. As a result of the globalization process, audit is constantly undergoing significant changes in order to achieve the quality of financial reporting and transparency of auditing at global level. For this reason, the legislation on auditing the financial statements is constantly increasing and tightening. The obligation to verify the financial statements is primarily enshrined in the Act on Accounting. Therefore, the accounting area is undergoing significant changes. One type of entity that is required to have audited financial statements is public interest entities that have been subject to our review. Our goal is to present definitions of these entities in the context of accounting and auditing legislation, to compare them and on the basis of comparative analysis and to express our own opinion on the definition of public interest entities in accordance with the legislation in question. By applying the deduction method, we will examine the definitions in question in the context of the applicable accounting and auditing legislation, highlight the common and different features of the object of our investigation and draw relevant and adequate conclusions based on our findings to fulfill our goal.

3 Results and Discussions

3.1 Public interest entities in the context of accounting legislation

Specific entities are entities referred to as public interest entities, which according to the Act on Accounting, § 2 para. 14 “an entity that has issued securities and has been admitted to trading on a regulated market of any Member State of the European Union, a bank, a foreign bank branch, an Export-Import Bank of the Slovak Republic, an insurance company insurance company, asset management company, supplementary pension company, stock exchange, central securities depository, securities dealer, payment institution, electronic money institution, collective investment undertaking, pension fund, branch of foreign financial institution, business entity, which meets at least two of the following conditions for at least two consecutive financial years:

- a) the total amount of the assets exceeded EUR 170 000 000; 3, which means accumulated depreciation and provisions (gross valuation),
- b) the net turnover exceeds EUR 170 000 000, net sales comprising the proceeds of the sale of goods, goods and services, net of discounts. Net sales also include other income after deducting discounts from the entity whose business is to generate revenue other than revenue from the sale of products, goods and services,
- c) the average converted number of employees in each financial year exceeds 2 000.

Each entity is required to keep accounts and prepare its financial statements. Pursuant to Section 17 of the Act on Accounting, the financial statements are a structured presentation of the facts that are the subject of the accounting, provided to persons using this information. The financial statements are intended to give a true and fair view of the facts that are the subject of the accounts. The purpose of the financial statements is to provide information about the financial position, performance and changes in the financial position of the entity [16]. Each entity must also prepare its financial statements taking into account the requirements of business ethics, which assess the economic activities of the company on the basis of moral values, where the primary objective is not profit maximization but focus on long-term development and prosperity [1, 4, 12]. Entities prepare their financial statements either under Slovak legislation, depending on the type of entity, or under supranational legislation. It is the transnational legislation that has come to the forefront of public-interest entities, since they are entities that have a significant impact on the State in which they operate or because they are part of a group of entities that have investors from different countries world. And worldwide harmonization is needed to ensure that all users of financial statements from any country can provide relevant information in an intelligible form. Global harmonization takes place at two levels, which are internationally accepted, namely International Financial Reporting Standards (IFRS) and US Generally Accepted Accounting Principles (US GAAP). Both of these adjustments focus primarily on the financial statements and not on the bookkeeping itself and the accounting procedures of individual accounting cases. The purpose of the general purpose financial statements is to provide information on the financial position, financial performance and cash flows to a wide range of users for whom the information is used to make economic decisions. The financial statements also disclose how management has managed the entrusted resources [19].

And most entities that are considered to be in the public interest have an obligation to prepare separate financial statements under IFRS. According to the Accounting Act, Section 17a are 'a bank, a branch of a foreign bank, a management company, a

branch of a foreign management company, an insurance company other than a health insurance company, a branch of an insurance company from another Member State, branch of foreign reinsurance company, Slovak Insurers Bureau, pension fund management company, supplementary pension fund company, Stock Exchange, an entity that is a trading company that meets at least two of the following conditions for at least two consecutive accounting periods:

- a) the total amount of the assets exceeded EUR 170 000 000, which means accumulated depreciation and provisions (gross valuation),
- b) the net turnover exceeds EUR 170 000 000, net sales comprising the proceeds of the sale of goods, goods and services, net of discounts. Net sales also include other income after deducting discounts from the entity whose business is to generate income other than income from the sale of goods, goods and services.
- c) the average converted number of employees in each financial year exceeds 2 000.

On a voluntary basis, according to the Act on Accounting § 17a par. 3 [22] decide to prepare separate financial statements under IFRS and the following entities, if they issued securities during the accounting period and were admitted to trading on a regulated market, are a payment institution, an electronic money institution, a securities dealer, a foreign securities broker they are not simultaneously a bank, a foreign bank branch, a management company or a branch of a foreign management company. It follows that not all entities that are considered to be in the public interest need to prepare separate financial statements under IFRS.

At the same time, the Accounting Act, in § 19, obliges certain entities to audit their individual financial statements by an auditor. Separate financial statements must be audited by an “entity and cooperative whose securities are admitted to trading on a regulated market; banks, foreign bank branches, municipalities, foundations, various chambers. companies, if they create capital and cooperatives, if at the date of the financial statements and for the immediately preceding accounting period at least two of the following conditions are met:

- a) the total amount exceeds EUR 1 000 000; 3 (accumulated depreciation and provisions),
- b) the net turnover exceeds EUR 2 000 000, net sales comprising the proceeds of the sale of goods, goods and services, net of discounts. Net sales also include other income after deduction of the discounts of the entity whose business is to generate income other than income from the sale of products, goods and services,
- c) the average number of employees in an accounting period exceeds 30.
- d) This implies that public-interest entities are required to have audited financial statements, either on the basis of an obligation to prepare financial statements under IFRS or under special regulations.

3.2 Public interest entities in the context of audit legislation

As a result of historical development, accounting and auditing have been formed as complex and controversial professions [17] that are closely interrelated RK Mautz and HA Sharaf define the audit as follows: [3, 5, 18]. Audit has its roots in logic and not in accounting. Therefore, audit and accounting are two different professions with different bases. Accounting and auditing are regulated by the relevant legal standards. Recently, however, there have been significant changes in the regulatory profession

as a result of the globalization process. At present, Act no. 423/2015 Coll. on Statutory Audit and on amendment of Act No. 431/2002 Coll. on Accounting, as amended (hereinafter referred to as the “Statutory Audit Act”). The adoption of the Statutory Audit Act transposes Directive No. 2014/56 / EU of 16 April 2014 amending Directive 2006/43 / EC on statutory audits of annual accounts and consolidated accounts. Among other things, some parts of Regulation (EC) No 1049/2001 of the European Parliament and of the Council have been transposed into the audit legislation. 537/2014 on specific requirements relating to the statutory audit of public-interest entities. For this reason, the Statutory Audit Act also includes a partial adjustment of the statutory audit of public interest entities. According to § 2 par. 16 of the Statutory Audit Act is a public-interest entity: “An entity that has issued securities that have been admitted to trading on a regulated market of any Member State, Bank and Foreign Bank Branch, Export-Import Bank of the Slovak Republic, , Reinsurance company and branch of a foreign reinsurance company, Health insurance company, Management company and branch of a foreign management company, Pension management company, Supplementary pension company, Stock exchange, Slovak Railways, Entity compiling consolidated financial statements of central administration which is a municipality, a city or a borough according to special regulations, from the accounting period preceding at least two consecutive accounting periods in which it met the following conditions:

- a) the total amount of its assets exceeds EUR 100 000 000, the sum of its assets being the sum ascertained from the consolidated accounts of the general government entity;
- b) the population exceeds 50 000.

Based on the above, we can state that the Accounting Act and the Statutory Audit Act should be interconnected, but they are not. Both provisions have provisions on public-interest entities, but these provisions are not the same. Each law establishes its own public-interest entities, which are identical in some types of entities, differing in some types.

4 Conclusion

Public interest entities are a group of entities that are subject to specific requirements in both accounting and auditing terms. Accounting and auditing legislation have their own definitions of a group of public interest entities which, for some types of entities, are identical but are entities that are considered to be public interest entities from the perspective of one legislation and not from the perspective of the other legislation. vice versa. Given the interconnectedness of accounting and auditing legislation, it would be appropriate for the definition of public interest entities to be uniform. In our opinion, the following types of entities should be considered to be public interest entities: an entity that has issued securities that have been admitted to trading on a regulated market, a bank, a foreign bank branch, an Export-Import Bank of the Slovak Republic, an insurance company, a foreign branch insurance company, reinsurance company, branch of foreign reinsurance company, Health Insurance Company, asset management company, branch of foreign asset management company, pension fund management company, supplementary pension company, Stock Exchange, Railway of Slovak Republic, accounting unit compiling consolidated financial statements of central administration, , which is a municipality, city or borough according to special regulations, from the accounting period, which is preceded by at least two the amount of assets exceeded EUR 100,000,000 and the population exceeded EUR 50,000, the

Central Securities Depository, a securities dealer, a payment institution, an electronic money institution, a collective investment undertaking, a pension fund, a branch of a foreign financial institution. In our opinion, entities that are companies which have at least two successive accounting periods for at least two of the following conditions should not be considered to be a public-interest entity: 'the total amount of assets exceeded EUR 170 000 000, net turnover exceeded EUR 170 000 000 , the average recalculated number of employees exceeded 2,000 ". These entities are not the types of entities that have a direct impact and link to the country in which they conduct their business. Linking is only due to the impact on corporate tax, value added tax and other tax and levy burdens and should therefore not be considered as public interest entities.

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