

Slovak Audit Firms and their Membership in a Network

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Abstract. Statutory audit in Slovakia is performed by statutory auditors or audit firms. Many of the audit firms are members of the globally operating audit networks. Membership in a network imposes certain rights and duties for audit firms. The existence and operation of the audit networks can be understood as one of the results of globalization that allows an increasing possibility of cooperation at the international level. Our goal is to clarify the state of audit firms operating in the audit networks. To achieve the goal, it was necessary to choose a purposeful work methodology and research methods, based primarily on the analysis of data from the list of the audit firms.

1 Introduction

As a result of historical development, accounting and auditing have been formed as complex and controversial professions [1]. Audit profession in Slovakia, focused on the performance of statutory audit (audit of financial statements), is directly connected with the process of verifying the truthfulness of information which are presented to the third parties through financial statements. The purpose of the financial statements is to provide information about the financial position, performance and changes in the financial position of the entity [2]. The information needs of individual user groups are diverse [3, 4]. Accounting entities in Slovakia prepare financial statements according Slovak legislation or IFRS [5].

Third parties rely on the auditor's opinion to make further decisions. In this context, the audit of financial statements is a tool of ensuring that objective information is reported in the financial statements [6]. As well as a comparability of financial statements and a constant need of ensuring transparency are caused by vast of changes constantly influencing economic practices in the relevant economic environment [7]. The need to perform the statutory audit arises from the uncertainty of the third parties that information presented in the financial statements is incorrect [8]. There are many models used to detect fraud [9]. It is therefore necessary to present all business transactions in the form of financial statements [10].

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The fact resulting from the uncertainty of the third parties is the reason for the legislative regulation of the requirements for the auditing profession and at the same time the whole process of the statutory audit.

In Slovakia, we can meet the fact that audit firms are members of a “Network”. The audit network is one of the possible forms of cooperation among the audit firms. In the supranational legislation of statutory audit, a “Network” is defined primarily in the International Standards on Auditing (ISA) and Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC (Directive 2006/43), art. 2 (7).

The European Directive 2006/43 had to be transposed into national legislation – to the Act. No 423/2015 Coll. on Statutory Audit and on amendments and supplements to Act No. 431/2002 Coll. on Accounting, as amended (Act on Statutory Audit). The transposition of the Directive 2006/43 into the Act. on Statutory Audit was reflected also in the definition of a Network in art. 2 (12) of the Act on Statutory Audit, as it is identical to the definition of a Network in the Directive 2006/43. In the European Union (EU) and its member states the EU legislation is implemented [11].

Table 1. Definition of a term “Network”.

	“Network”
ISA (Glossary)	A larger structure: That is aimed at cooperation, and That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources
Directive 2006/43 (Art. 2 (7))	The larger structure: Which is aimed at cooperation and to which a statutory auditor or an audit firm belongs, and Which is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality-control policies and procedures, a common business strategy, the use of a common brand-name or a significant part of professional resources
Act on Statutory Audit (Art. 2 (12))	Means a cluster aimed at cooperation and to which a statutory auditor or an audit firm belongs, and Which is clearly aimed at profit-or cost sharing, or Which shares common ownership, control or management, strategy, the use of a common brand-name or a significant part of professional resources

2 Methods

In Slovakia from its establishment in 1993 to the present, there have been several audit firms. The list of audit firms as well as statutory auditors in Slovakia is maintained in accordance with art. 11 of the Act on Statutory Audit by Auditing Oversight Authority.

Auditing Oversight Authority was established on 1 January 2008 and, as of 31 March 2008, it took over the management of the list of audit firms and the statutory auditors from the Slovak Chamber of Auditors.

2.1 Statistics of audit firms in Slovakia

Such a list, in accordance with the requirements of the European Union, is a publicly accessible register, published on the Authority's website. As of December 2019, the number of the audit firms with an active license was 234 (see Fig. 1.).

As Fig. 1. shows, there has been no significant change in the number of audit firms in recent years. However, Auditing Oversight Authority in the framework of the management of the licenses, in addition to issuing the new licences, issues licenses again (e. g. due to a change of an audit firm name), suspends licenses (e. g. on a request or due to a breach of duties arising from the Act on Statutory Audit), activates the suspended licenses (e. g. on a request or after the expiration of the period which a license was suspended for), deletes audit firms from the list (e. g. on a request or due to an audit firm liquidation).



Fig. 1. Number of audit firms with an active license in individual years.

2.2 Statistics of Slovak audit firms and their membership in a network

Auditing Oversight Authority states in the list of audit firms, in accordance with art. 11 (2i), information about audit firms' membership in a network and all entities belonging to the network and affiliates of audit firms and their registered office or reference to the place where the information is available to the public.

In the list of 234 audit firms with an active licence, 20 audit firms are members of a network. Fig. 2. shows thus, that less than 10% of all active audit firms are members of a network.

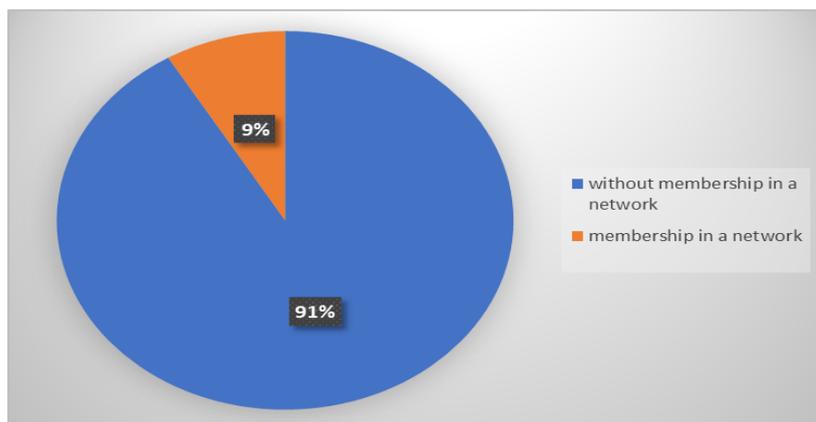


Fig. 2. Overview of audit firms and their membership in a network.

3 Results and Discussion

Based on information from the list of audit firms, most audit firms operating in the Slovak republic are members of different networks. Even some of them are subject to EU market monitoring in relation to the services provided to Public Interest Entities (PIEs). Public interest entities are understood to be accounting units that are governed by the accounting legislation as well as auditing legislation [12].

Based on the list identified by the Committee of European Auditing Oversight Bodies (CEAOB), there are 10 key audit firms operating globally:

Table 2. Key audit networks defined by CEAOB.

Key Audit Networks (by CEOB)	Slovak Audit Firms as Members
Baker Tilly	TPA AUDIT, s.r.o.
BDO	BDO Audit, spol. s r. o.
Deloitte	Deloitte Audit s.r.o.
Grant Thornton	Grant Thornton Audit, s. r. o.
KPMG	KPMG Slovensko spol. s r.o
Mazars	Mazars Slovensko, s.r.o.
Moore Stephens	BDR, spol. s r.o.
Nexia	VG D SLOVAKIA s. r. o.
PwC	PricewaterhouseCoopers Slovensko, s.r.o.
EY	Ernst & Young Slovakia, spol. s r.o.

Mentioned audit firms currently in Slovakia do not provide services only in the field of statutory audit. They extend the services mainly with other assurance services, consulting services, or risk management. It is also because every enterprise may face the risk of business default [13].

In such cases, an audit network is a network of “Professional Services”, which in an interconnection of independent audit firms that choose to merge in order to reduce costs effectively and provide professional services to the clients through an organizational framework. Distribution of the costs (e. g. for trainings or technologies) among a larger number of firms is an advantage, which can effect positively the fees of services provided.

Mutual cooperation of Slovak audit firms within the networks exists in several forms. Cooperation typical for smaller national audit firms operating in the network does not focus on e. g. compliance with global quality standards of services provided.

More significant cooperation of national audit firms operating in the network is the contractual cooperation among legally and economically autonomous member audit firms that are organized under the strategic guidance of one or more member firms. It means e. g. a usage of the network’s name, exclusive representation in a specific territory, compliance with the global quality framework of services provided, etc.

Legal autonomy in this case means that each firm member in the network has its own legal status, which also results into the protection of risk of liabilities for other members of the network.

Economic autonomy in this case means that the strategic economic decisions are made independently [14]. For comparison, within a classic group of firms, e. g. based on a percentage of voting rights, one firm takes control of the other firm.

Although we state the firms within the audit network are legally and economically independent, a network membership imposes them rights and duties that should be respected. One of the typical rights of a member firm is the possibility of using a well-known brand name, common resources, manuals, databases or software, the exclusive right to provide services in specific territory. A typical duty of a member firm is to be under a constant monitoring by the network management. By monitoring and controlling, the network ensures that quality of services provided does not decrease and is constantly in accordance with legislative requirements.

In this article, we point out the activities of Slovak audit firms in the network as one of the possible forms of cooperation among audit firms, especially at global level. Many clients expand to foreign markets, so audit firms had to react. The reaction of audit firms was the establishment of the audit networks. Harmonization and standardization, as well as the overall business, represent a principal feature of present globalization [15]. Pakšiová and Loviová (2019) presented that globalisation, accompanied by rapid technological changes, has given rise to a completely new business environment [16].

In Slovakia, only 10% of all audit firms with an active licence are members of some audit network. This might be due to a fact that audit networks focus mainly on operating at a global level. Therefore, if small audit firms focus only on the national market, they do not have such a need to be integrated into a network. However, most of them belong to key audit networks, which are monitored by the EU because of services provided to PIES.

In addition to many benefits of the network membership, there are also many disadvantages. One of the disadvantages seems to be the process of global network monitoring, which is performed in all member audit firms. However, the need to monitor the quality control system arises from the supranational legislation – International Standard on Quality Control I (ISQC I). Global monitoring should have an impact on the quality of services provided. Therefore, even in this disadvantage should be a benefit for the member audit firm.

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