

Slovak audit companies operating in audit networks

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Abstract: *Statutory audit in Slovakia is performed by statutory auditors or audit companies. Some of these audit companies are members of the audit networks. The existence and operation of the audit networks could be understood as one of the results of globalization that allows an increasing possibility of audit companies cooperation, even at international level. The goal is to clarify the state of Slovak audit companies operating in the audit networks. To achieve the goal, it was necessary to choose a purposeful work methodology and research methods, based primary on the analysis of data from the list of the Slovak audit companies.*

Keywords: *Slovak audit companies, audit network, list of Slovak audit companies*

JEL codes: M42

1 Introduction

Audit profession in Slovakia, focused on the performance of statutory audit (audit of financial statements), is connected directly with the process of verifying the truthfulness of information which are presented to the third parties through financial statements. Kubaščíková and Pakšiová (2015) state that companies in Slovakia prepare financial statements according to Slovak legislation or IFRS.

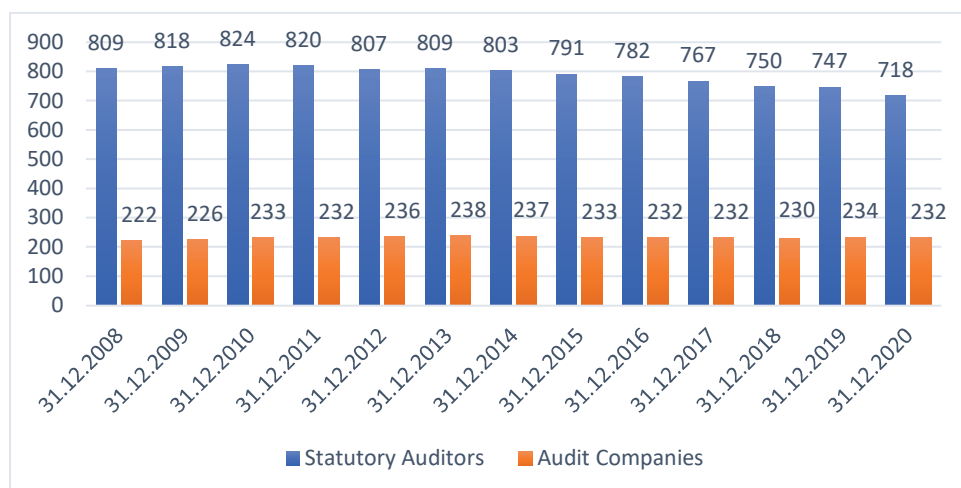
Third parties rely on the auditor's opinion to make further decisions. The information needs of individual user groups are diverse (Green, 2016; Leidner and Lenz, 2017). The need to perform the statutory audit arises from the uncertainty of the third parties that information presented in the financial statements is incorrect (Maděra, 2014). In context of this fact, authors Kubaščíková and Tumpach and Juhászová and Almanova (2019) point out the existence of many models to detect fraud. Authors Krišková and Užík (2017) say about audit of financial statements as a tool of ensuring objective information reported in the financial statements.

In Slovakia, from its establishment in 1993 to the present, there have been several audit companies and statutory auditors, too. The lists of audit companies and statutory auditors (as individuals) 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 lists of audit companies and the statutory auditors from the Slovak Chamber of Auditors.

These lists, in accordance with the requirements of the European Union, are publicly accessible registers, published on the Authority's website. As of 31 December 2020, there were:

- 234 audit companies with an active license,
- 718 statutory auditors (as individuals) with an active license (see Fig. 1).

Fig. 1. below, regarding audit companies, there has been no significant change in the number of audit companies with active license in recent years. Regarding active licenses of statutory auditors, we can see a declining trend in recent years.

Fig. 1 Number of audit companies and statutory auditors with an active license in individual years

Source: Register of Auditing Oversight Authority

In generally, many audit companies are members of networks through which they affiliate with other companies for various business and client service purposes. For this reason, we can meet the fact that audit companies even in Slovakia are members of a network.

A term "Network" is defined in the Slovak Act No. 423/2015 Coll. on Statutory Audit and on amendments and supplements to Act No. 431/2002 Coll. on Accounting, as amended (known as "Act on Statutory Audit"), art. 2 (12). This definition followed the wording of the 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 (known as "European Directive 2006/43"), art. 2 (7) (see Tab. 1). It is because the European Directive 2006/43 had to be transposed into national legislation. In the European Union (EU) and its member states the EU legislation is implemented (Juhászová and Markovič and Mokošová, 2014).

Tab. 1 Definition of a term "Network"

"Network"	
European Directive 2006/43 Art. 2 (7)	The larger structure: <ul style="list-style-type: none"> - 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)	A cluster aimed at cooperation and to which a statutory auditor or an audit firm belongs, and <ul style="list-style-type: none"> a) which is clearly aimed at profit- or cost-sharing; or b) 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

Source: European Directive 2006/43, Act on Statutory Audit

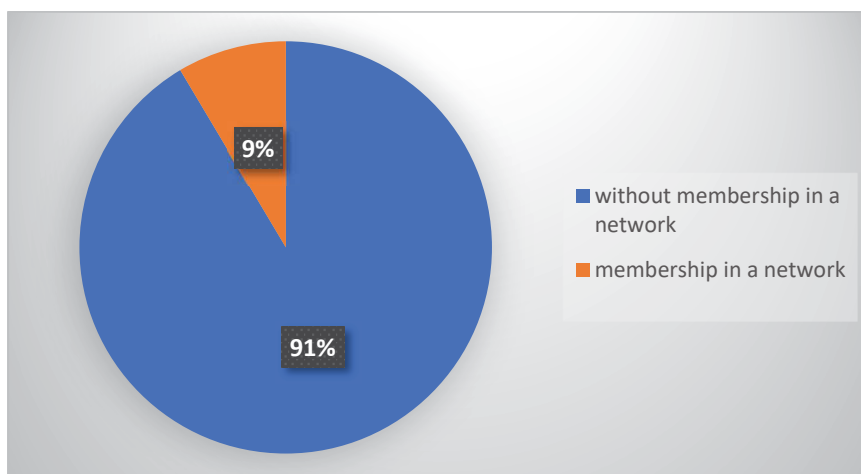
2 Methodology and Data

The list of audit companies (maintained by Auditing Oversight Authority) contains, in accordance with art. 11 (2i) of the Act on Statutory Audit, information about audit company's membership in a network and all entities belonging to the network and affiliates of audit companies and their registered office or reference to the place where the information is available to the public.

Although the definition of a network also considers a statutory auditor as a member of the network [A cluster ... to which a *statutory auditor* or an audit firm belongs], the list of statutory auditors (maintained by Auditing Oversight Authority) does not contain this information. On the other hand, in accordance with art. 10 (2i) of the Act on Statutory Audit, this list contains information of the audit company in which the statutory auditor is a shareholder (partner), statutory body, employee or with which the statutory audit is otherwise associated. It follows that a statutory auditor (as an individual) becomes a member of the network through the audit company which he is associated with.

In the list of 232 audit companies with an active license, 20 audit companies are members of a networks (see Fig. 2). Fig. 2. shows thus, that less than 10% of all active audit companies are members of a network.

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



Source: own processing

3 Results and Discussion

Based on information from the list of audit companies, 20 audit companies operating in the Slovak republic are members of 17 different networks (see tab. 2).

Tab. 2 Slovak audit companies operating in audit networks

Audit Network	Slovak Audit Company
Moore Stephens International Limited	BDR Consult spol. s r.o. BDR, spol. s r.o.
Deloitte Touche Tohmatsu Limited	Deloitte Audit s.r.o.
Grant Thornton International PKF International Limited	Grant Thornton Audit, s. r. o. PKF Slovensko s. r. o.
ALFA AUDIT	ALFA AUDIT, s.r.o.
KPMG	KPMG Slovensko spol. s r.o.
Rödl	Rödl & Partner Audit, s.r.o.
PricewaterhouseCoopers International Ltd.	PricewaterhouseCoopers Slovensko, s.r.o.
Mazars	Mazars Slovensko, s.r.o.

LeitnerLeitner	BMB Partners s.r.o. LeitnerLeitner Audit SK s.r.o.
Consultatio	AUDÍTORSKÁ A ÚČTOVNÁ SPOLOČNOSŤ, s.r.o. A - Consultatio spol. s r.o.
Ernst & Young Global	Ernst & Young Slovakia, spol. s r.o.
Nexia International	VGD SLOVAKIA s. r. o.
HLB INTERNATIONAL	MANDAT AUDIT, s.r.o.
Baker Tilly International	TPA AUDIT, s.r.o.
BDO International	BDO Audit, spol. s r. o.
Crowe Global	Crowe Advartis Assurance s.r.o.

Source: Register of Auditing Oversight Authority

Some of these networks are global in nature. A global audit network is a collection of legally separate audit companies, united by a common brand as well as common policies, practices, and technologies. Of course, the degree of standardization and integration across the member audit companies varies among networks.

A cooperation of audit companies within the networks exists in several forms. Generally, an audit company enters into an agreement with a separate legal entity (known as "Global entity"), to become a member audit company in the network. Global entity provides certain resources and functions to member audit companies to promote the consistent performance of audits across the network in compliance with applicable professional standards and regulatory and legislative requirements. From the legal standpoint, the member audit companies are autonomous, preserving their own legal status, depending on the specific jurisdiction in which each of them operates. In this context, Lenz and James (2007) speak about cooperation between legally and economically autonomous audit companies.

A key function of Global entity is Quality Monitoring. The entity monitors audit services provided to determine whether its audit policies, methodologies, and tools are being applied consistently and supplemented appropriately by member audit companies.

Some of mentioned audit companies are subject of monitoring within European Union, even at network level in relation to the services provided to Public Interest Entities (known as "PIEs"). Public interest entities are understood to be accounting units that are governed by the accounting legislation as well as auditing legislation (Kňazková and Ondrušová, 2019).

Based on the list identified by the Committee of European Auditing Oversight Bodies (known as "CEAOB"), there are 11 key audit companies monitored at network level: Moore Stephens, Deloitte, Grant Thornton, KPMG, PricewaterhouseCoopers, Mazars, Ernst & Young, Nexia, HLB, Baker Tilly, BDO. These audit companies 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, and even risk management. It is also because every enterprise may face the risk of business default (Kováčová and Klieštík and Valášková and Ďurana and Juhászová, 2019).

Conclusions

As the globalization (of trade and industry) continued to increase, companies have increasing operated internationally. Pakšiová and Lovciová (2019) presented that globalization, accompanied by rapid technological changes, has given rise to a completely new business environment.

One of the reactions of audit companies was the establishment of the audit networks. In Slovakia, less than 10% of all audit companies with an active license are members of audit network. This might be due to a fact that audit networks focus on operating mainly at a global level. Therefore, if small audit companies focus only on the national market, they do not have such a need to be integrated into a network. However, most of these audit networks belong to key audit networks, which are monitored by the EU.

In this article, we point out Slovak audit companies operating in the network as one of the possible forms of cooperation among audit companies, especially at global level.

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