

Accounting News - December 2019

KPMG in Slovakia

Amendment to the Act on Accounting in October 2019

On 15 October 2019, the National Council of the Slovak Republic approved an amendment to Act No. 431/2002 Coll. on Accounting as amended (hereafter referred to as the "Act on Accounting") by means of Act No. 363/2019 Coll.

Certain changes will become effective as early as 31 December 2019, others on 1 January 2020.

Main changes of the amendment to the Act on Accounting are:

- Changes in the annual report for some accounting entities
- The size criteria for audit of ordinary individual financial statements and extraordinary individual financial statements have been increased
- The statement of the selected data from the individual statutory financial statements prepared according to IFRS as adopted by the European Union must be audited.

Description	Previous legislation	New legislation	Substance of change
<p>Annual report, information on diversity policy</p> <p><i>(Article 20 (13) and (14) of the Act on Accounting)</i></p>	<p>An accounting entity that has issued securities that were permitted to be traded on a regulated market of any Member State shall also include in its annual report a description of the diversity policy applied in relation to its administrative bodies, management bodies, and supervisory bodies, primarily with regard to the age, gender, and educational and professional backgrounds of members of these bodies, the objectives of that policy, the manner in which it has been implemented, and the results achieved in the reported period, if it meets at least two of the following conditions as of the balance sheet date:</p> <ul style="list-style-type: none"> a) its total assets exceeded 20,000,000 euros; total assets being defined for this purpose as the amount determined from the balance sheet after adjustments by items specified in Article 26 (3) (= the "net" column in the balance sheet), b) its net turnover exceeded 40,000,000 euros, c) its average recalculated number of employees exceeded 250. <p>See Article 20 (13) of the Act on Accounting.</p> <p>An accounting entity that does not include a description of the diversity policy according to paragraph 13 in its annual report shall indicate in its annual report the reasons for which it has decided not to apply the diversity policy (Article 20 (14) of the Act on Accounting).</p> <p>The obligation to include this information in an annual report has existed since 1 January 2017. It is usually included in the section of the annual report entitled Corporate Governance Statement.</p>	<p>The introductory part of this provision has been amended as follows:</p> <p>An accounting entity that has issued securities shares that were permitted to be traded on a regulated market of any Member State and an accounting entity that has issued shares traded in the multilateral trading system (reference to Article 51 (1) of Act No. 429/2002 Coll. on the Stock Exchange as amended) of any Member State shall also include in its annual report a description of the diversity policy applied...</p>	<p>The set of accounting entities that are required to include this information in their annual reports has been reduced. It transpires from the Explanatory Statement that the Act on Accounting also required this information from accounting entities other than those referred to in the Accounting Directive.</p> <p>The Explanatory Statement reads: Goldplating identified in the transposition of Article 1 (2) (c) of Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups has been removed from Article 20 (13). A minimalist obligation to disclose non-financial information in an annual report has been adopted with respect to a description of diversity policy. This exemption applies to large accounting entities that have only issued securities other than shares permitted to be traded on a regulated market, unless these accounting entities have issued shares traded in a multilateral trading system. According to the existing legislation, all large accounting entities, including those that have also issued securities other than shares, had to include this non-financial information in their annual reports.</p> <p>Effective date. According to Article II, these changes will enter into force on 31 December 2019. According to the transitional provisions of Article 39r, Article 20 (13) in the wording effective from 31 December 2019 shall be applied for the first time to the preparation of an annual report for the accounting period ending on 31 December 2019.</p>

Description	Previous legislation	New legislation	Substance of change
<p>Audit of financial statements by an auditor, criteria of size</p> <p><i>(Article 19 (1) (a) of the Act on Accounting)</i></p>	<p>The obligation to have individual financial statements audited is set out in Article 19 (1) and (4) of the Act on Accounting. This obligation also applies, among others, to accounting entities that have a prescribed legal form and exceed certain criteria of size.</p> <p>Ordinary individual financial statements and extraordinary individual financial statements must be audited by an auditor if the accounting entity:</p> <p>a) is a company, and is required to create share capital, or a cooperative, if these met at least two of the following conditions as of the balance sheet date and for the preceding accounting period:</p> <ol style="list-style-type: none"> 1. its total assets exceeded 1,000,000 euros; total assets being defined as total assets determined from the balance sheet before adjustments by items specified in Article 26 (3) (= the "gross" column in the balance sheet), 2. its net turnover exceeded 2,000,000 euros, 3. its average recalculated number of employees exceeded 30 during one accounting period. 	<p>Ordinary individual financial statements and extraordinary individual financial statements must be audited by an auditor if the accounting entity:</p> <p>a) is a company and is required to create share capital—or a cooperative, if these met at least two of the following conditions as of the balance sheet date and for the preceding accounting period:</p> <ol style="list-style-type: none"> 1. its total assets exceeded 1,000,000 2.000.000 euros; total assets being defined as total assets determined from the balance sheet before adjustments by items specified in Article 26 (3) (= the "gross" column in the balance sheet), 2. its net turnover exceeded 2,000,000 4,000,000 euros, 3. its average recalculated number of employees exceeded 30 during one accounting period. 	<p>Companies are a joint stock company, a simplified joint stock company, a limited liability company, a limited partnership, and a general partnership. A joint stock company, a simplified joint stock company, and a limited liability company are required to create share capital (Article 58 (2) of the Commercial Code). According to legal literature, it is disputable whether or not they should also include a limited partnership.</p> <p>Following the amendment, it is clear that this provision applies to all companies, and not only those that are required to create share capital.</p> <p>After 10 years, the criteria of size, namely assets and turnover, have been increased again as follows:</p> <ul style="list-style-type: none"> - assets from 1,000,000 to 2,000,000 euros (the maximum set by the Accounting Directive is 4,000,000 and/or 6,000,000 euros; at the same time, the Directive refers to "net" assets, whereas the Act on Accounting refers to "gross" assets, which means that there is additional room), - net turnover from 2,000,000 to 4,000,000 euros (the maximum according to the Accounting Directive is 8,000,000 and/or 12,000,000 euros). <p>The criterion of the average recalculated number of 30 employees remains unchanged (the maximum according to the Accounting Directive is 50).</p> <p>The Explanatory Statement reads: The amendment to Article 19 has modified the conditions establishing the obligation to have ordinary individual financial statements and extraordinary individual financial statements audited by a statutory auditor or an audit firm. In order to remove the administrative burden on the one hand, but in the light of the importance of audit for society on the other hand, the criteria of size have been increased by 100% with respect to the existing material conditions comprising total assets and net turnover of an accounting entity. The criteria of size have been proposed on the basis of an assessment of the size of the economy and its growth, and the needs of society, including the state.</p> <p>Effective date. According to Article II, these changes will enter into force on 1 January 2020. According to the transitional provisions of Article 39s, Article 19 in the wording effective from 1 January 2020 shall be applied for the first time with respect to an audit of ordinary individual financial statements and extraordinary individual financial statements for the accounting period beginning on 1 January 2020 or later, while the fulfillment of the conditions referred to in Article 19 (1) (a) (1) and (2) in the wording effective from 31 December 2019 for the accounting period ending on 31 December 2019 or earlier shall be assessed according to legislation effective until 31 December 2019.</p>

Description	Previous legislation	New legislation	Substance of change
<p>Audit of the statement of selected data from financial statements prepared according to the IFRS as adopted by the EU</p> <p><i>[Article 19 (1) (d) of the Act on Accounting]</i></p>	<p>Accounting entities referred to in Article 17a of the Act on Accounting (currently including approximately 180 accounting entities – banks, insurance companies, large companies etc.) shall prepare their statutory individual financial statements according to the IFRS as adopted by the European Union, rather than according to Slovak accounting legislation. These financial statements shall be audited by an auditor. Accounting entities shall file them in the Register of Financial Statements. In addition, they shall prepare the so-called statement of selected data from these financial statements and also file this statement in the Register of Financial Statements. This statement does not have to be audited by an auditor.</p> <p>A statement of selected data shall only be prepared from statutory financial statements. It shall not be prepared from financial statements prepared on a voluntary basis according to the IFRS as adopted by the EU.</p> <p>Some of the approximately 180 accounting entity mentioned above are subject to oversight by the National Bank of Slovakia.</p>	<p>The following words have been added to Article 19 (1) (d) of the Act on Accounting, according to which financial statements must be audited by an auditor if the accounting entity prepares financial statements according to Article 17a: “and an auditor must audit data contained in the statement of selected data from the financial statements of an accounting entity that is not an accounting entity subject to oversight according to special legislation^{24aab}) as to whether they comply with the financial statements prepared according to Article 17a.”</p> <p>Footnote ^{24aab}) refers to:</p> <ul style="list-style-type: none"> - Council Regulation (EU) No. 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (Official Journal of the EU, L 287, 29 October 2013). - Article 1 (3) (a) of Act No. 747/2004 Coll. on Oversight of the Financial Market and on Amendments to Certain Laws as amended. 	<p>This means that an accounting entity will be required to have compliance of data contained in the statement of selected data with the financial statements audited by an auditor. It transpires from the reference to Article 17a that it is a statement of selected data from statutory individual financial statements, and not from statutory consolidated financial statements (consolidated financial statements are regulated by Article 22, and not by Article 17a, of the Act on Accounting).</p> <p>This will apply solely to accounting entities that are not subject to oversight by the National Bank of Slovakia, for example, large companies referred to in Article 17a (2) of the Act on Accounting (there are approximately 80 such accounting entities at the present time).</p> <p>The Explanatory Statement reads: A statement of selected data from ordinary individual financial statements and extraordinary individual financial statements, prepared with respect to audited financial statements according to the International Financial Reporting Standards (IAS/IFRS), shall be audited by an auditor. The statement of selected data from financial statements serves as the basis for the processing of financial information from the Register of Financial Statements. When this obligation is adopted, all documents filed in the Register of Financial Statements relating to audited financial statements will be audited, except for selected data from the financial statements of accounting entities that are subject to oversight by the National Bank of Slovakia according to Act No. 747/2004 Coll. on Oversight of the Financial Market and on Amendments to Certain Laws as amended.</p> <p>Effective date: According to Article II, these changes will enter into force on 1 January 2020. It (apparently) transpires from the above that they apply to financial statements prepared for the accounting period beginning on 1 January 2020 or later.</p>



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