

RESEMBLING THE HUNGARIAN AUDIT PARTICULARITIES TO THE INTERNATIONAL AND HUNGARIAN NATIONAL AUDIT STANDARDS

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Abstract

As a consequence of the particular development of our country, the proportion of the small enterprises shows an increasing tendency. This layer means the business for most Hungarian auditors, therefore we pay stressed attention to the special features of auditing of small enterprises. These features are not reflected overall by the National Auditing Standards. The size differences of the enterprises affect the auditing work and influence the risk of it as well. The present Hungarian economic conditions make it necessary to attune the auditing work to the size of the enterprises. Regarding the small enterprises the auditor also examines the reliability and the authenticity of the accounting report, but there is no need of the application of some complicated and time-consuming procedures that are essential in the case of large undertakings. It is every auditor's own responsibility and own interest to adapt this system to his/her everyday auditing practice. Thus the question emerges that how this apparent contradiction can be resolved knowing the International and the Hungarian National Audit Standards. Taking into account that these two standards are close to each other in content, in the following they will be handled as one and will be referred to as the National Audit Standard.

Keywords: auditing, accounting.

1. The Concept of Small Enterprise

We have not found legal definition for the small enterprise that can be used on every field of the economics. Lacking of an overall definition even the Hungarian Central Statistical Office (HCSO) was not able to perform such researches and surveys that would definitely conclude on the number of the domestic small enterprises. The HCSO reveals the number of the registered enterprises in its annual and monthly reports according to the number of the staff, that is why the categorization is mainly based on quantitative criterions. It has also turned out from the reports of the HCSO that the number of businesses employing less than 50 persons is considerable and the number of those has been increasing year by year, but the registration cannot show definitely that the certain enterprise is operating or not.

The lack of uniform definition has encumbered the accurate perspicuity, but the development was indispensable supporting the integration process to the European Union, because the EU has evolved a very rigorous definition for the small

and middle-sized enterprises.

The EU concept of small and middle-sized enterprise covers such enterprise in which the number of employees is less than 250 and which do not belong to one or more large enterprises. Inside the group of small and middle-sized enterprises we can draw distinction between micro, small and middle-sized undertakings according to the following criterions:

- in micro enterprises the number of employees is less than 10,
- in small enterprises the number of employees is less than 50 and the annual sales do not exceed 7 million EURO or the balance sheet total is less than 5 million EURO,
- the middle-sized undertakings employ 50–250 persons, while the annual sales do not reach 40 million EURO or the balance sheet total is less than 27 million EURO.

In Hungary the determination of the small enterprises has come to a uniform base by the adaptation of the EU developed definition. *The XCV. Act in 1999 of the small and middle-sized enterprises, and of supporting their development* introduced the following categories into the Hungarian research, statistical and support policy:

- Micro enterprise: the number of employees is 0–10 person(s).
- Small enterprise: the number of employees is 11–50 persons, the annual net sales revenue does not reach 700 million forints, or the balance sheet total is at most 500 million forints.
- Middle-sized enterprise: the number of employees is 51–250 persons, annual net sales revenue is at most 4000 million forints, or the balance sheet total is at most 2700 million forints.

Regarding the small and middle-sized enterprises it is another requirement that the proprietary ratio of other organization or organizations that does not belong to this category must not exceed the 25% of the subscribed capital of the small or middle-sized enterprises.

The above-mentioned act was enacted on 1st of January in 2000, and it is legally binding to be applied to every kind of measures, where ‘micro enterprises’, ‘small enterprises’ or ‘middle-sized enterprises’ are of concern.

2. The Accountancy Aspects of the Small Enterprises

As it is revealed by the above-mentioned approaches, the determination of small enterprises is not so easy. The auditing work in the determination of the small enterprises the qualitative criterions would rather come into the limelight besides the consideration of the quantitative criterions¹.

¹ *Magyar Könyvvizsgálói Kamara (Chamber of Hungarian Auditors)* (2000): *Nemzeti könyvvizsgálati standardok és módszertani útmutató (National Audit Standards and Methodical Guide-book)* I-III. kötetek (Vol. I-III) (in Hungarian)

On the basis of this motivation the *100th opinion of CHA* (Chamber of Hungarian Auditors) defines the qualitative criterions of small enterprises taking the Hungarian characteristics into account:

1. The proprietary and the management rights are concentrated in the hands of a few persons, the group of proprietors is commonly closed.
2. Internal controlling systems with limitations, in addition the management can ignore the control.
3. Homogeneous, apparent business activity and consequently:
 - usually only one place of business,
 - small number of employees,
 - high concentration of tasks,
 - just a few sources of revenue characterize its operation.
4. Strong dependence on the supplier, the creditor and the customer side.
5. Inside the frame of the applied accountancy system strong efforts are made towards the simplification, for example
 - use of standard bookkeeping and account software,
 - there is no analytical register in the case of inventory stocks,
 - there is no calculation in the case of self produced stocks,
 - endeavor to align with the regulation of the tax acts with reference to the applied methods.

According to the accountancy act the concept of small enterprise can be approached by the type of the accounting report, which builds on quantitative definitions again: during the preparation of the simplified annual accounting report the following limits are to be considered: 150 million forints balance sheet total, 300 million forints annual net sales revenue and employment of 50 persons on average in the year under review. Regarding the audit system the limitation of 50 million forints for the annual net sales revenue classifies additional enterprises into the group of small enterprises.

It can be seen again that a big gap appears between the limit of 700 million forints for annual net sales revenue specified by the act of small enterprises and the threshold of 50 million forints for compulsory audit prescribed by the accountancy act. It can be foreseen that the low values of the accountancy act are not supportable and at the same time this projects a significant narrowing on the audit market for the future.

3. The Audit Characteristics of the Small Enterprises

Previously we summarized the acts that regulate the determination of the small companies at some level. It is revealed as well that the auditors will come to a very difficult situation if they want to decide about the ‘categorization’ of a certain company. Meanwhile there are no exact bases and accurate circumstances

of the categorization, the audit standards also use an approximate system of viewpoints. The National Audit Standards are not containing elements in their regulation which make the use of different standards possible in the case of different tasks and conditions. Consequently during the audit it is the responsibility and *risk* of the auditor to judge whether the given enterprise belongs to the category of the small enterprises or not. The auditor must decide on the categorization by his own professional experience taking into account the quantitative, the qualitative as well as the methodological criterions. In his decision he considers

- the operational and organizational perspicuity of the enterprise,
- the characteristics of the organizational structure of the enterprise, the delimitation between the responsibilities and exercises,
- the value, composition and background content of the balance sheet total and of the annual net sales revenue,
- the number of employees, the professional accountancy background,
- the totality of management functions, the relation between the manager and the proprietor,
- the item numbers of the books, the nature of the transactions (routine–non-routine),
- the experience of the previous audits,
- the operation of the internal control system.

In small enterprises the proprietor and the chief executive is many times the same person. On this basis there is no ‘demand’ on the audit. The audit becomes a necessary wrong, an unnecessary expense charge, so the conditions of the audits are several times poor and the real role of it cannot be fulfilled (it is not involved into the operation of the enterprise). The manager-proprietor concentrates just on the operative problems, since they are essential from the viability and existence points of view. These altogether result in the pushing of the audit to the background and they think that they are exempted from the responsibility for the field of accountancy. The profit of the company is influenced by the ‘willing of the proprietor to pay the taxes’ at the end of the year. In case of family enterprises another problem is how much of the expenses of the company are real business related costs and how much of them stands for the private needs of the family. So as to eliminate the risk emerging due to the proprietary influence a lot more effort is to be made concerning the supervision of the existence and the evaluation.

At small enterprises the number of well-experienced book-keepers is basically less who could facilitate and assist the work of the auditor. Many times there are financial reasons for the absence of the continuous education, the necessary professional background is not ensured (papers, books). Often the lack of the basic qualification means such overwork during the audits that can cause overloads at the planning of the schedule: the bargained fees at once turn out to be low.

The small enterprises are societies usually without premises, plants or factories for the production and distribution activities. The nature of the activity is simple, not complicated, but very variable, its position on the market is defenseless.

Sometimes just one decision of a supplier is enough to eliminate the economic basis of the enterprise. The future of the enterprise would be unforeseeably endangered.

The number of economic transactions are not too much, the non-routine business is frequent, a relatively large part of the economic events are based on accountancy estimations subordinated to the interest of the owner. The order of the accountancy is not shaped, several deficiencies characterize it, which are not repairable because of the absence of interest. The deficient certification, the frequently uncontrollable completeness mean the highest risks of the audits: often even those events are not accounted that would basically change the statements of the accounting report.

The internal control system of the small enterprises is another source of risk for the auditor. The primary task of the internal self-control system would be to explore the insufficiencies of the processes. But in the case of a small enterprise, where the number of employees is, in general, low and the managers focus on the operative tasks, this control system is entirely not working or is performed just at a very low level. It is carried out by non-professionals, mainly as a part of other processes.

The auditor should face the fact that the mistakes are not cleared up in full scale. If he discovers a booking mistake, he can run into existential questions, because if he forms a non-appropriate opinion in his report, next time he may lose the assignment for the auditor.

After mapping the scope of the work, the auditor can decide whether he is able to perform the work alone, whether he has the necessary expertise, or the work needs more colleagues or experts to be included into the audit. The improper pre-assessment of the situation can lead to accountancy problems: the proprietor will expect a comprehensive, full-scope service for the bargained fee, while the auditor is not in the position to push the connected charges to the client.

The auditor needs the same kind of assurance both in the case of small enterprises and in the case of large ones. The above-mentioned attributes may lead to the situation that the absence of some evidences needed to give the opinion out is an inherent consequence of being a small enterprise. Therefore several times the opinion for a small enterprise cannot be issued without limitations and remarks.

Or still can it be?

To this question a work and risk estimation process gives a possible answer that reflects the above mentioned attributes and on the basis of the auditor judgement becomes suitable to the requirements of the demanded and enough evidence. In the outlined model the responsibility of the auditor is to have an overview of the business processes and based on this he can give advice and support on correcting and improving measures, which finally in the frame of the audit meets his/her legal duties. According to the model the audit is not a necessary wrong, rather it fulfils the role of a desirable 'crutch' in the interests of the enterprise.

4. Audit Practice of the Small Enterprises²

4.1. Contact, Inquiry, Offer, Contract

The establishment of the first contact is the initial, important phase of the audit process and it can be carried out via many possible ways. It is prohibited for the auditor to advertise his services, but the presentation of himself/herself and his/her venture, the appearance in the nomenclature of the auditors chamber are allowed and he can also publish his qualification grading and his nominations. The first contact with the client is usually established through relatives or friends. So before the acceptance of the assignment, the independence and the incompatibility relations with the client should be clarified. In order to bypass these problems the auditor should compulsorily declare his/her independence and he/she also can take a declaration of ethical matters (about his expertise). All the possible efforts should be made to prevent a situation where independence could be queried. These connections are often confidential but they can become distrustful as well. In advance the auditor could not know the background intentions of the assignment that can appear behind every unknown task as an unpredictable risk. In case of competition it is useful to meet the client with previous preparations, since the client can choose from several propositions and besides the price-work-service the personal contacts can play an important role.

During the query the auditor screens the external and internal positions of the enterprise, and investigates whether the necessary conditions of the work are available or not. The auditor meets the managers and the employees of the small enterprise and gets familiar with their functions and duties, in addition he/she meets the contact person as well. It comes from the characteristics of the small enterprises that the auditor has to obtain enough information about the business activity and the accountancy system of the enterprise. He has to make sure that the register system is reliable, adequate, appropriate and gives reliable information for accomplishing the audit safely. For example a possible way to make sure of the quality of the accountancy system is filling test paper and having an inquiry on the rules, evidences and synthetic registrations. The basic insufficiencies should be recognized at this step to avoid the acceptance of such assignment that cannot be accomplished.

After the overview of the information gained about the small enterprise it must be decided whether the auditor has appropriate expertise and capacity to accomplish the given task. The connection between the client and the auditor is regulated by bilateral contract that makes the relation legal between the auditor and his/her client. The contract should not limit the independence of the auditor and this must be declared indeed. The accurate fixing of the tasks of the auditor is extremely important, for example it should be fixed whether the auditor undertakes the tax control or not, or with what kind of supplementary services he/she provides the audit (management consulting, tax counselling, accountancy consulting). However, the contract should not jeopardize the accomplishment of the prescribed tasks of the

²BARTÓK NAGY, A., A könyvvizsgálat. (The Audit), Saldo 1993 (in Hungarian)

auditor. During the inquiry the contract is the first opportunity where the scope of the audit – the risk of the auditor – can be narrowed by the recognized and postulated unmanageable risks (checking of the completeness of the information service, the documentation, the scope of the tax control, marking the responsible person for the not assumed tasks, the information demand for the reviews, fixing of the deadlines, determination of the necessary declarations, etc.). In case of small enterprises the particular regulation of these issues is predominantly important so as to avoid the later disputes.

4.2. Screening³

After the acceptance of a new assignment and before the beginning of the audit it is worth making a detailed survey of the internal and external operating conditions of the enterprise. The goal of this phase is to define the critical auditing objectives, and the determination of the appropriate methods. The screening of the client gives such information to the auditor that makes him/her possible to form an opinion about the present position and about the future opportunities of the company and that are necessary for the realization of the given tasks.

A starting business obviously has only legal documents and business conceptions. In this case the task of the auditor is to make the company prepare the documentation that belongs to accountancy, legal and general informational areas and to review them according to the valid provisions. The major tasks of the screening can be:

- overview of the acts and laws affecting the activity of the small enterprises (rules of enterprise rights, basic tax relations e.g.: VAT keys, tax allowance, registration; other rules, etc.),
- overview of the management, of the organizational and of the operational order of the enterprise, the regularity of activity (the organizational and operational rules, descriptions of duties, directions, proprietary decisions, etc.),
- characteristics of the operation of the informatics system, (code description, parameterization, maintenance, mechanization of the processes, integration degree of the electronic registers into system, application of check points, etc.),
- overview of the accountancy policy, the documents-order, the discipline of the clients (evidence holder, contract register, declaration of completeness, conduction of analytical proofs, remittance, cash management, etc.),
- screening of the accountancy system and of the closeness of the business processes (planning and reporting system, corporate policy, controlling, etc.),
- disclosure and qualification of the joint venture enterprises (also from tax rights, accountancy and auditing aspects),

³MATUKOVICS, G., A könyvvizsgálat tervezése, szervezése, végrehajtása cégünk gyakorlatában (Planning, Organization and Execution of the Audit in the Practice of Our Firm), IX. Országos Könyvvizsgálói Konferencia (The 9th National Auditors' Conference) (in Hungarian)

- mapping the internal control system, determining the reliability grade, as well as
- reviewing of the earlier auditing results.

In the case of the continuous audit assignment the auditor already has the above mentioned information, therefore he/she only has to concentrate on the upgrading, specifying and complementing of his/her former knowledge and on the gathering of the modifications happened. He/she has to follow up and re-qualify the changes concerning the business life, the operation, the business processes, the joint venture enterprises, the order of billing and accountancy, the internal control system and the informatics system. Regarding the small enterprises in order to moderate the risks it is very important to register the gained experience all time during the audit into the working records.

4.3. *The Ongoing Interim Work*⁴

The first task of the ongoing mid-year audit is to overview the closeness of the opening of the books. Starting from the basic principle of the continuity of accountancy the opening data of the business year have to be in entire accordance with last year's figure, that is why the supervision of the opening is in strong relation to the arrangement of the closing of the previous books. If the steps of the closing of the books are appropriate (distribution of dividends and the coupled personal income taxes, the publication and the deposition, the determination of the dividend and of the corporation taxes and the connected deposits) then should the identity of the opening and closing items and the accuracy of the assorting items be overviewed. It comes from the re-codified accountancy act that already for the year 2001 the accountancy policy, the chart of accounts and other accountancy regulations had to be modified. It is to be examined whether the bookkeepers are acquainted with the new modifications of the act. The capital acceptability (relation of equity and subscribed capital), the success of the remarks of the auditor and the effect of other important events how the enterprise should be supervised. In harmony with the changes of the accountancy policy the altered circumstances and the application level of the qualifications can be judged. After the supervision of the opening the next step is the audit of the books itself. The most important items are as follows: review of the business events, the examination of the proofs and the right book-keeping, control of appearance of the activity in the books, checking the preservation of the proofs, for the conditions of filing and handling, the application of the taxation and other legal changes, the examination of the main fields (account for the entertainment, definition of invisible business with joint venture enterprises). As it is required the participation in the interim stocktaking can support the closing at the end of the year. All the steps that are essential for the closing procedure should be prepared

⁴BÍRÓ, T. – KRESALEK, P., Könyvvizsgálat 2., (Audit), BGF-PSZFK, 2001 (in Hungarian)

already at this point (property evaluation, dividend decision, information demand of the closing).

During the interim work the auditor becomes acquainted with several important decisions that influence the life of the enterprise, with the risks of the enterprise, with the pressed hazardous fields, with the tax relations, and with the realization of the defined tasks. About his/her interim work and the emerged deficiencies the auditor informs the managers through the notes he/she prepared. If the auditor regularly forwards the notes to the client and examines the improvements and the resolutions it is a big step toward the facilitation of the year-end statement: if the deficiencies are improved during the year, the notes are considered, the effects of them are taken into account, the necessary proofs are presented, then the documentation for the closing is formed by the preliminary control of the auditor, the danger of the appearance of a large mistake is reduced. That is why in case of small enterprises the frame of the successful work of the auditor basically deviates from National Audit Standards regulation system that determines the year-end closing system and its certification.

4.4. Materiality, Determining the Necessary Sampling⁵

4.4.1. The Sampling

The auditor has to determine the reasonable and acceptable error margin, which type of sampling methods will be applied during his/her yearly work and during the audit of the year-end closing. Obviously the verification of all documents is not the task of the auditor and it is not achievable since the completeness and high disproportion makes the whole auditing activity unreasonable, in addition it devolves the responsibility of bookkeeping on the auditor. The auditor considers the size of the sample, the range of the expected error and the quantity of the acceptable error during planning of the sampling. The following sampling methods are used during audits:

- Random sampling: each accounting item can be taken into the sample with equal ratio.
- Based on a predetermined criterion: for example each item which is above a limit in value, or item which is deemed to be more risky. The evaluation of some items (for instance the investments, the depreciation of low value assets) cannot be achieved based on sampling methods, but is worth verifying in every small enterprise.
- Target sampling: the evaluation is based on a formula. One approach of this type of evaluation can be the case when every twentieth item is verified.

¹BARTÓK NAGY, A., Vállalkozások ellenőrzése (Control of the Enterprises) Perfekt (No. 307), 1998 (in Hungarian)

During each method we select a certain percentage of the items accounted and the rate of errors found is projected to the whole set of items. The auditor needs to distribute his/her resources optimally concerning to the importance and risk of the topics evaluated. In small enterprises the auditor has to avoid over-auditing of less important areas during supervision, he/she needs to consider the actual experience and the results of the continuous interim work.

4.4.2. Materiality Error Threshold

The error threshold should be defined during the risk estimations that no essential error remains after the audit in the report of the small enterprise. An error is essential, if it would affect the user of the report in his/her decision. The auditor needs to determine what is regarded as error and needs to count the materiality threshold for the entire report. This calculation can be achieved based on plan data and actual data from the previous year during the interim work. For closing work annual actual data and numbers and methods recommended by standards can be applied. The materiality threshold would not be accounted as an objective category, it is usually the function of the expertise. The auditing risk has influence on the materiality, since inverse proportionality exists between these two areas. The auditor needs to pay attention to this correlation during the development of the work-program and the schedule. When the auditor determines the materiality threshold, it should be documented properly. If the auditor recognizes that the materiality threshold is not appropriate for further evaluation and modification is required, the threshold should be reevaluated and newly documented.

4.5. Risk Estimation

With respect to the characteristics of the small enterprises we can find many risk factors, which are not significant or do not appear in large enterprises. The risk is a remarkably complex effect and consists of different elements. Different sciences apply different aspects for grouping those elements. In accordance with our system of aspects, we discuss risks which are independent of and unimpressionable by the auditing activity, and risks which are in correlation to the auditing activity and methods.

The risk which is independent of the auditing activity is called enterprise-risk. We distinguish two types of enterprise-risk:

- environmental risk: it is connected principally to the external environment of the company such as the connection with the creditors, the partners and the governmental budget, it appears from the conflict of interests between them.
- operating risk: it is the group of risks which appear during the operation of the enterprise like the interconnection between the roles of the proprietor and the manager, the incompetence which comes from low number of employees,

non adequate operation of the internal control system, the unpredictability of the market factors.

The role of the audit-dependent risk estimation is that it enables the auditor to evaluate the necessary degree of diligence during his/her activity based on the errors already recognized. According to the expert literature, three large sets of this type of risks are denoted:

- Inner or inherent risk: errors originated from the operation of the data-processing system.
- Verification risk: the probability of the fact that the lack of internal auditing system or its inadequate operation cause errors, which are not recognized, or no countermeasures are implemented.
- Recognizing risk: the consequence of the fact that significant errors or aggregate significant errors are not recognized by the auditor.

The auditor has no tools for avoiding the inner and verification risks, he would give just guidance to the managers. The inner risk can be decreased through updating and development of a more correct internal control system. The recognizing risk is in the hand of the auditor. This type of risk can be mitigated by proper organization of the internal auditing system. The environmental and operational risks can be specified by the experience of the activity of the small enterprise, these features define the scope of sampling and auditing activity and the methods chosen by the auditor. In small enterprises risk estimation should be handled the same way as materiality, both are not negligible during the planning of the annual audit.

4.6. Risk Estimation Model of Enterprises

The inefficiency of the internal control system should be considered during the risk estimation for small enterprises. Planned, precisely accomplished auditing activity is required, but risk exists even so. We can mention that the auditor needs to be aware of his/her own accountability, since the auditor is accountable with his/her personal properties to the actors of the market. The only way to avoid claims, if the auditor *can prove* that he/she did the audit with the highest accuracy and professional profoundness. The aim of planning and of documented implementation during the audit is to minimize the risk to the lowest possible level, knowing that risk cannot be decreased absolutely. For this reason at first the auditor has to get acquainted with the enterprise and environmental risks, then he/she has to determine the critical auditing objectives (risky items of the balance-sheet). Each step of the risk estimation process should be documented. The whole auditing workflow is accompanied by the risk. From establishing contact to issuing the auditor's statement the entire auditing workflow should be considered as a potential source of risk, and it is expedient to proceed respecting it.

The risk estimation model can be applied during the evaluation of the set of customers. At first step the auditor determines whether the set of customers of the

small enterprise is significant or not from auditing point of view. If the auditor does not account the set of customers significant (divided materiality threshold), then he/she makes the aging stock to account for the occurring depreciation. If the customer list of the small enterprise is significant, then the next step is screening of the customer register system. He/she reviews whether the customer account system is close or not, which kind of outstandings are overdue, whether the outstandings will come in before the auditing completion date. If the auditor can make certain of the completeness and evaluation of the set of customers, then this process would be enough to accept the book-value of the customers. Otherwise in case of essentiality the complete or partial implementation of balance-reporting prescribed by the auditing standards becomes necessary. The application of the model in case of small enterprises can be only individual, however, because of its simplicity it is an unnegligible part of the work.

4.7. Year-End Closing Tasks

The National Audit Standards take the process of the year-end closing as a base of the conditions of issuing the auditor's statement. The special feature of the auditing of the small enterprises is that we try to adapt the requirements to an auditing practice, which – according to the information above – continuously works together with the enterprise, it is acquainted with and considers the risks and activities of the enterprise, and knowing the work the auditing practice organizes it. If we admit this, then we can understand that the system drawn above can be appropriate to narrow the scope of our work to the necessary extension (set out from the entire criteria of the National Audit Standard), to optimize and to document properly.

5. Tasks Performable by the Client

A certain part of the closing tasks can be delegated to the client under the supervision of the auditor. These tasks may include such cases that are connected normally to the closing activity of the client. In this way closing can be done faster and these tasks can be performed in the predetermined way meeting the requirements of the auditor. In addition the closing documents can be prepared in time, step will be out of the closing, and we can provide us with auditing proofs immediately after the review.

After the key date, in the beginning of the year the following tasks should be accomplished: the announcement of the balance, sending the customers' balance-reporting letters, documentation of the confirmation and evaluation of them; the survey of the incoming suppliers' balance-reporting letters and the answer to them; and the assessment of the balance of the bank-accounts. It could be enough to make the balance-reporting to the divided materiality threshold of the bulk. If the system

works properly (see the risk estimation model) then it could be enough to report the balance, for instance to the ten largest or seventy percentage of turnover and value.

These tasks are followed by the documented checking of the general ledger, this process can include for instance:

- checking the tax accounts – tax sub-ledger – tax general ledger (the client oneself checks whether his/her register harmonizes with the balance of the current account sent by the tax authority APEH),
- filling the tax control questionnaire (the client checks if the adequacy of the accounts of different taxes, which simplifies the systematic enumeration of the modifying items of the tax base of the corporate tax),
- control of the major result-items (analyses the content of the major items, call the attention to the possible hidden risks, to the modified operational features, false accounts),
- the trial calculation of the depreciation based on the balances of the general ledger and the depreciation keys of the accountancy policy, etc.

Additional obligation from the client are the declarations of the leadership: declaration of completeness, declaration of data security, attorney's letter and preparation of other (proprietor's and creditor's) declarations. Without it the auditor is not able to eliminate and document a significant part of his/her risks (completeness, suppressed intentions, hidden businesses, manipulations, cheats, misrepresentations).

One cardinal step of the year-end closing is the preparation and completion of the stock-taking, preparation of the stock sheets. These accountancy proofs will support the statements. With filling in the stock-taking questionnaire the client answers those questions, which will be asked by the auditor later. The questionnaire starts from the questions whether a stock-taking procedure exists, and who is the accountable manager for stock-taking. The questions follow whether the stock-taking has happened, whether assets already recorded are labeled, whether the little-value assets are recorded, how the unsold stocks are handled. After filling in the questionnaire the stock recounting like sampling or reviewing is often sufficient.

During the closing the financial events becoming known between the key-date and the day of the balance-sheet preparation should be regarded based on the accountancy principle of completeness. According to the new accountancy act the evaluation of the items of the balance, the accounting of the depreciations, adjustment and correction of value have to be based on the value on the balance-sheet preparing day. The auditor cannot reveal the processes from the documents after the key-date. The management can give information on the events happened after the key-date, and on the items, which are outside the books by filling and signing a questionnaire prepared in advance by the auditor. In this way the auditor can obtain a relevant new proof. These declarations should not be as a matter of routine or form, but the management should take them seriously, they have to include the points of responsibilities.

After preparing the profit and loss statement and the balance sheet, the notes to the account will be compiled. It needs to be harmonized with the other part of the

report and meet the requirements of the accountancy act. The most accurate method can be for reaching the harmony inside the report, if the auditor gives in advance, starting from the rows of the balance sheet and of the profit and loss statement the informative-numerical data necessary for himself/herself. He/she makes accessible the scope of the information required, and supports the pre-control of them by built-in algorithms. In this case the client will prepare notes to the account required by the audit with its own data, in a controllable way. A risky solution is the follow-up questionnaire for checking the content, because it is not able to call the attention to the lack of arithmetic coherence, therefore its acceptance can mean significant overwork, in addition we can find different form and content in each case. Double result can be reached with the above practice of auditing of the small enterprises: in one respect the simplifications, which are different from the general approach become followable, in other respect significant timesaving can be reached by organizing the whole closing process, and by professional support.

6. The Closing Tasks of the Auditor⁶

The competent manager is responsible for the precision, completeness of the transaction recording and processing system, and for the content of the information given. According to the previous point we can obtain significant, however, not the strongest proofs solely by asking the information from the client in order form. These cannot substitute the further work of the auditor. This work is partly the control and spot-check of the previous information, and implementation of the planned auditing work-program.

The auditor needs to control the harmonization of the sub-ledger – general ledger – stock – balance notes to the account with physical examination, interviewing, confirmation, algorithmical review and activity-assessment. During the audit of each item of the balance sheet and of the profit and loss statement the following five basic characteristics need to be checked: existence, property, evaluation, precision, reporting.

The administration, global and content assessment of the risky areas belong to the tasks of the auditor. In the course of the audit the results and deficiencies have to be continuously recorded, the corrigible errors have to be corrected after the harmonization with the auditor. The opinion of the auditor – whether it is positive or negative – has to be communicated to the management, via the management letter, the preliminary auditor's opinion and the preliminary communication of the content of the report. The management letter – in summarized and understandable way – consists of the establishments of the auditor and that what type of report will be prepared by him/her. Without modifying the audit certificate we can inform the management officially on the deficiencies in the system, tax, accountancy, procedures, financial management and professional issues and can exempt the audit from them. It is necessary to keep in mind that the management letter is addressed to the

⁶TOMPA, M., Könyvvizsgálói kézikönyv (Auditor's Hand-book), Únió 1999 (in Hungarian)

manager and if we feel additional operational risks, then the deficiency revealed has to be included in the report.

7. Documentation⁷

The auditor has to pay attention to appropriate documenting of information involved by the report and the certificate. Sufficient support is necessary that the report of the enterprise shows trustable and real picture. In our opinion the accounts, working-papers, assessments obtained in the previous points are sufficient basis for supporting the opinion of the auditor. It is sufficient to prepare a copy and extract of the documents, accounts checked, and minutes from the meetings. From deficiencies and errors found it is necessary to prepare an error-list, if required mid-time report is also necessary. The sufficient evidence has a very high importance. The working papers have to comprise every significant information, which are the basis of the auditor's opinion. In the case of auditing small enterprises it is necessary to prepare a closing documentation, which includes the whole work accomplished, the relation among the parts of the work accomplished, the scope of the items not assessed on the ground of materiality or risk estimation model.

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⁷Szerzői közösség (Community of Authors), Könyvvizsgálat A-tól Z-ig. *Audit from A to Z*, KJK, 1998 (in Hungarian)