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News Flash

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Audit Obligation in Hungary

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As the annual closures approach, it is smart checking some highlighted areas again. One of these checkpoints is the audit obligation. There are several statutory requirements for audit obligation, but primarily the provisions of the Accounting Act must be taken into account.

The law obliges all companies to audit, but waives this obligation depending on the value limit.

Exemption from audit obligation

The audit is not mandatory if the company's annual net sales (calculated for the period of one year) did not exceed HUF 300 million on the average of the two financial years preceding the financial year under review, and if the average number of employees of the company of the two financial years preceding the financial year under review did not exceed 50 persons.

Who is not covered by the exemption of the audit Obligation?

However, the exemption may not be applied by organizations specified by the law, and therefore subject to audit:

- companies keeping double-entry books, where statutory auditing is required by law;
- mutual saving banks;
- consolidated companies;
- the Hungarian branches of non-resident companies, except those Hungarian branches of non-resident companies that are established in a Member State of the European Union. In addition, the Hungarian branch of non-resident company that is established in a non-Member State of the European Union is also exempt, however, the legal provisions on the obligations of annual accounts, audit, deposit and publication afforded by the national laws of the home country are infirmity with the relevant European Union regulations. (A list of these countries will be published on the Single Government Portal (Egységes Kormányzati Portál – Website of the Hungarian Government));
- companies that are permitted, under special circumstances, to derogate from the

provisions of the Accounting Act for the purposes of true end fair view;

- public- interest entities;
- company, which has a public debt of more than HUF 10 million on its balance sheet, which are more than 60 days overdue.

Audit Obligation for companies established without legal predecessor

In the case of a company established without a legal predecessor – when applying a value-dependent exemption – if the data of the company are not available for either or both of two financial years preceding the given financial year or if such data is incomplete, the data estimated for the current year, and if available, the data of the two previous financial years (calculated for the period of one year) should be taken into consideration.

Let us see some practical examples:

In 2017, the turnover of the company was HUF 150 million and the average number of the employees was 15 people

In 2018, the company's turnover was HUF 650 million, with an average of 45 employees.

Average Revenue $(150+650) / 2 =$ HUF 400 million, which is more than HUF 300 million.
Average number of employees $(15+45 \text{ person}) / 2 = 30$. This is less, then 50 persons.

The two exemption clauses are not met at the same time; thus the company will be subject to an audit from 2019 on.

In 2017, the turnover of the company was HUF 50 million and the average number of the employees was 15 people

In 2018, the company's turnover amounted to HUF 250 million, with an average number of 45 employees.

The average sales revenue $(50+250) / 2 =$ HUF 150 million, which is less than HUF 300 million.

The average number of employees $(15+45 \text{ person}) / 2 =$ 30 employees, which is less than 50 employees.

The two exemption clauses are simultaneously met; thus the company is not required for audit from 2019 onwards.

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The average number of employees $(15+45 \text{ person}) / 2 =$ 30 employees, which is less than 50 employees.

The two exemption clauses are simultaneously met; thus the company is not required for audit from 2019 onwards.

Establishment of the company is 1st August 2018.

In 2018, the company's turnover amounted to HUF 150 million, with an average number of 15 employees.

The 'annualization' of sales revenue is $150/5 \times 12 =$ HUF 360 million, which is more than HUF 300 million.

The company is subject to an audit from 2019 on.

Establishment of the company is 1st August 2017

In 2017, the company's turnover amounted to HUF 50 million, with an average number of 5 employees.

In 2018, the company's turnover amounted to HUF 350 million, with an average number of 45 employees.

The 'annualization' of sales revenue of 2017 is $50/5 \times 12 =$ HUF 120 million. $(120+350)/2 =$ HUF 235 million, which is less than HUF 300 million.

The company is not required for audit for 2018.

If the numbers of accounting indicate that the year is subject to audit, then the auditor should be appointed by the main board of the company. The appointment must be made during the general meeting or an assembly, in a form of the owner's decision or resolution, depending on the form of the company.

The Legal Department of Accace Hungary is more than happy to help You out in such cases!

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