**About compliance with the bookkeeping and reporting requirements set out in the Act on Accounting at Hungarian subsidiaries of multinational groups**

**The purpose of this statement is to draw the attention of companies to the importance of cooperation with the tax office and with their appointed statutory auditors in order to enable the tax office and the statutory auditors to duly complete their work required by law, without significant disadvantageous findings and consequences on the company.**

Act C of 2000 on Accounting sets, inter alia, the following requirements relating to the financial statements of a business year and to the underlying bookkeeping activities of Hungarian companies falling within the scope of the Act:

* Economic entities shall prepare **financial statements - in Hungarian** - on their operation and on their financial position and performance, supported by an accounting system prescribed in this Act, following the closing of the books of the financial year;
* **Accounting records must be maintained in Hungarian**, using the single-entry or the double-entry system;
* An economic entity keeping double-entry books shall operate an **accounting system** on the assets it manages, uses or owns, and the sources thereof, as well as on its business operations, with facilities to show the changes in assets and liabilities corresponding to the true facts **on a continuous basis, and in a complete and transparent manner**;
* The purpose of the **standard chart of accounts included in the Ac**t is to facilitate the organization of the accounting of the economic entity by incorporating the assets and liabilities of the economic entity and the effect of business operations on its profits and losses into a standard system, and to provide basic information necessary for the annual account to be prepared in accordance with this Act and with the government decree issued by authorization granted in this Act;
* Economic entities keeping double-entry books shall establish **a system of accounts in accordance with the provisions related to the standard chart of accounts**, containing facilities for drawing up the annual accounts in full compliance with the relevant provisions prescribed in this Act;
* The **financial statements** shall be prepared in the structure and in the mandatory layout defined in this Act, the items defined in Annexes 1-3 to this Act in the sequence specified taking into account the rules for further breakdown or consolidation, it shall be supported by the relevant documents, rely on the figures of **properly maintained double-entry accounting records**, and shall be drawn up in a clear and concise form **in Hungarian**.

[Act C of 2000 on Accounting 4. § (1) - (4), 12. § (2), 20. § (1), 159-160. §]

Some of the companies in Hungary belonging to large international (multinational) groups do not fully comply with the requirements of the Act on Accounting referred to above. Some of these companies maintain their accounting records in accordance with a system of accounts used by the group, developed under an accounting and reporting framework other than the Hungarian Act on Accounting, and in a language other than Hungarian. This method, in addition to not meeting the requirements included in the Act on Accounting, makes the conduct of tax audits extremely difficult, if not impossible in certain cases. It can also present difficulties for the statutory auditor who is required to form an opinion on whether the financial statements give a true and fair view in accordance with the Act on Accounting.

Taxpayer companies should be aware of the fact that Hungarian accounting requirements do not only provide uniform financial reporting principles and rules but they also provide a framework which makes it possible for the tax office to perform a detailed and substantive audit of the completeness of their tax liabilities and of their compliance with tax rules.

**A company will fully comply with the requirements of the Act on Accounting if the general ledger accounts are prepared within the uniform Hungarian system of accounts, and not out of the system of accounts** (eg. by preparing manual reconciliations in spreadsheets). The use of reconciliations prepared outside the system of accounts does not allow the tax office to check completeness of the produced Hungarian account balances in their entirety.

With reference to the above, we draw the attention of management of such companies to the fact that it is **their responsibility to take measures as soon as possible** to ensure that the general ledger accounts are prepared within the Hungarian uniform system of accounts.

In those cases where the tax office believes that the tax audit cannot be conducted in substance due to the lack of a transparent and complete system of accounts as described above, the tax office may order the company to rectify this weakness, to produce the required accounting records in a system compliant with the Act on Accounting and to present these accounting records to the tax office.

The statutory auditor’s responsibility is to form an opinion on whether the financial statements give a true and fair view in accordance with the Act on Accounting. The auditor conducts his work in accordance with Hungarian National Standards on Auditing and with ethical requirements. These describe in detail the audit procedures to be performed in order to form an audit opinion, the framework for excercising professional judgement as well as procedures to be performed when the auditor discovers or becomes aware of legal noncompliance by the audited company. Standards and relevant ethical requirements state that the auditor should discuss the noncompliance with management and should consider the implications on the auditor’s report. The auditor should also ask management to rectify the legal noncompliance even if the auditor concludes that the noncompliance has no impact on the audit opinion.

[National Tax and Customs Office – Chamber of Hungarian Auditors]