

In accordance with Article 88, item 2 of the Constitution of the Republic of Montenegro I hereby pass the

ENACTMENT ON PROCLAIMING

THE LAW ON ACCOUNTING AND AUDITING

(Official Gazette of the Republic of Montenegro, No 69/05 from the 18th of November 2005)

I hereby proclaim the Law on Accounting and Auditing, adopted by the Parliament of the Republic of Montenegro at the second meeting of the second regular session in the year 2005, on the 10th of November 2005.

Number: 01-1140/2
Podgorica, 15 November 2005

President of the Republic of Montenegro
Filip Vujanovic, signed

LAW ON ACCOUNTING AND AUDITING

I BASIC PROVISIONS

1) General Provisions **Article 1**

- (1) This Law regulates the conditions and the manner for maintenance of business books, preparation and presentation of financial statements (hereinafter referred to as: accounting), as well as the conditions and the manner for conducting procedure and performing audits of financial statements (hereinafter referred to as: auditing).
- (2) This Law shall apply to legal persons registered for performing economic and non-economic activities, and branches of foreign companies (hereinafter referred to as: legal persons).
- (3) This Law shall not apply to entities financed from the budget and extra-budgetary funds.

2) Meaning of specific terms

Article 2

Individual terms, for the purpose of this Law, have following meaning:

- Audit Firm means a business organization established to conduct auditing activities at the territory of the Republic of Montenegro (hereinafter referred to as: Montenegro) in accordance with the law;
- Accrual Accounting means an accounting base according to which transactions and business events are recorded in books for the reporting period in which they occur as defined by the IASB regulation;
- Financial Statements mean, in accordance with IAS or IFRS:
 - Balance sheet,
 - Income statement,
 - Cash flow statement
 - Statement of equity,
 - Accounting policies and notes to the Financial Statements;
- Financial Reports represent the set of Financial Statements and other supporting reports that might include as well reports of management, comments of the board, auditor' s opinions and reports, and other documents;
- Cash Accounting means an accounting method in accordance to which transactions and business events are recorded in the books at the moment when cash (including cash equivalents) is received or paid out, regardless of the timing of occurrence of revenues or expenditures. Financial result is calculated, in accordance with this principle, as the difference of cash inflow and outflow;
- IAASB means the International Auditing and Assurance Standards Board as an independent regulatory body of the International Federation of Accountants (IFAC);
- IASB means the International Accounting Standards Board as independent regulatory body of the International Accounting Standards Committee Foundation (IASCF);
- IFAC means the International Federation of Accountants, which is a global regulatory body in the area of accounting profession;
- IFRIC (International Financial Reporting Interpretations Committee) means a committee of IASB in charge of analysis of issues in the area accounting within the context of the existing International Accounting Standards (IAS) and IASB Framework;
- Code of Ethics for Professional Accountants means the Code accepted in accordance with the IFAC International Code of Ethics for Professional Accountants – ICEPA, which defines generally accepted standards of conduct for professional accountants;
- IAS means International Accounting Standards, International Financial Reporting Standards - IFRS and relevant explanations of the Standards and amendments to these standards and relevant explanations issued or adopted by the IASB and the IFRIC;
- ISA means International Standards of Auditing as promulgated by the IAASB and IFAC;
- Registry means a register of certified accountants, auditors and audit firms;
- Auditor means a physical person who is authorized to perform audits in accordance with this Law;

- Authorized professional accountant means accountant having a certificate of the state administration body competent for the activities of finance issued in accordance with the Law on Accounting and Auditing (Official Gazette of the Republic of Montenegro, No 6/02);
- Certified Accountant means an accountant having a certificate of the state administration body competent for the activities of finance (hereinafter referred to as: competent body).

II FINANCIAL STATEMENTS AND STANDARDS

Article 3

- (1) Legal persons shall prepare financial statements in compliance with International Accountant Standards (IAS), or International Financial Reporting Standards (IFRS), as promulgated by the IASB and adopted and published by a competent body that obtained a copyright to translate and publish from the relevant body of the International Federation of Accountants (IFAC).
- (2) Audit and presentation of financial statements shall be conducted in accordance with the International Standards of Auditing (ISA) promulgated by the IAASB, the body of International Federation of Accountants (IFAC), and adopted and published by competent body.

III ACCOUNTING AND BOOKKEEPING

1. Business Books

Article 4

- (1) Business books shall be maintained on a double entry bookkeeping system.
- (2) Business Books shall mean the transaction journal, the general ledger and ancillary records.
- (3) A legal person shall be obliged to record all transactions using various accounting methods, depending on the nature and volume of its operations.
- (4) An accounting record must be based on credible accounting documents, in accordance with rules of proper bookkeeping. Accounting records should reflect the true financial position and results of operations.
- (5) Business books may be maintained in paper or electronic form or microfilm.

2. Accrual and Cash Based Accounting

Article 5

Legal persons having more than 500,000 euros of annual revenue shall be obliged to employ the accrual based accounting when stating their annual revenue.

Legal persons having less than 500,000 euros of annual revenue shall be obliged to employ the cash based accounting when stating their annual revenue.

3. Preparation and Submission of Financial Statements

Article 6

- (1) Legal persons shall prepare annual financial statements as on the 31st of December of the business year.
- (2) Legal persons shall submit financial statements referred to in paragraph 1 of this Article to the Central Registry of the Commercial Court in Podgorica no later than the 30th of June of the current year for the previous year.
- (3) Legal persons having annual revenue above 500,000 euros shall be obliged to prepare and submit financial statements for a financial year, or for shorter reporting periods, at the request of competent state bodies and organizations.
- (4) Legal persons that in accordance with this Law have an obligation to have their financial statements audited shall also submit opinion on the executed audit together with the financial statements referred to in paragraph 1 of this Article.

4. Maintaining Business Books

Article 7

- (1) A person determined by the general act of a legal person shall maintain business books and shall prepare financial statements of a legal person.
- (2) A legal person shall be obliged to properly maintain business books and documents that served as the basis for bookkeeping and data recording.
- (3) Maintenance of business books and preparation of financial statements referred to in paragraph 1 of this Article may be performed by a person who has not been convicted of crimes that make him or her unworthy to perform activities in the area of accounting.

5. Signing of Financial Statements

Article 8

Financial statements shall be signed by the responsible person determined by the general act of a legal person, and by the manager of financial or accounting department.

6. Submission of Financial Statements

Article 9

A legal person shall be obliged to submit financial statements in paper form, upon request of the body or organizations authorized by the law.

7. Closing and Keeping Business Books

Article 10

- (1) A legal person shall be obliged to close business books on the 31st of December of a business year and keep them within the following deadlines:
- 1) Annual calculations of employees' wages, or original payrolls for periods for which annual calculations signed by employees are not at the disposal, are to be kept permanently;
 - 2) Financial Statements (year-end account), the general ledger and its correspondent transactions journal are to be kept for at least 10 years, whereas ancillary books and financial statements for shorter reporting periods are to be kept for at least five years;
 - 3) Bookkeeping documents that served as a base for the bookkeeping entries, are to be kept for at least five years, whereas sales and control slips, ancillary forms and similar documentation, as well as documents that relate to payments operation in an institution that performs such operation, are to be kept for at least three years;
- (2) Year-end accounts, business books and bookkeeping documents are to be kept in original.

8. Certification of Accountants

Article 11

- (1) Authorized professional accountant may acquire the title of certified accountant if he/she passes the examinations determined by the certification program determined by the competent body in accordance with the IFAC education standard.
- (2) The person referred to in paragraph 1 of this Article who does not meet the requirements determined by that paragraph shall keep the certificate and title of the authorized professional accountant.

- (3) Certificate of an accountant may be acquired by the person who:
- 1) Has passed the examinations determined by the certification program established by the competent body, in accordance with the Education Standard of IFAC;
 - 2) Has a university degree;
 - 3) Has three years of working experience in accounting activities;
 - 4) Has not been convicted of a crime that makes him/her unworthy to perform activities in the area of accounting.
- (4) The competent body shall determine whether the requirements referred to in paragraph 3 of this Article are met, and it shall issue the certificate of accountant.

IV AUDIT OF FINANCIAL STATEMENTS

1. Definition and Obligation of Audit Article 12

- (1) Audit means an examination of financial statements for the purpose of expressing an opinion whether the financial statements subject to the audit represent true and fair condition of assets, capital and liabilities, as well as of results of operations, applying International Standards of Auditing and Code of Ethics.
- (2) An audit of financial statements shall be obligatory for joint stock companies, as well as limited liability companies that, on the day of preparation of financial statements, meet at least two of the following three criteria:
- 1) Have the amount of total assets exceeding 2 million euros;
 - 2) Have realized annual revenue exceeding 4 million euros;
 - 3) Have an average number of employees during the business year that exceeds 50 employees.
- (3) An audit of financial statements shall also be mandatory for insurance companies, banks and other financial institutions, Central Depository Agency (CDA), authorized participants on the securities markets, investment funds and other collective investment schemes.

2. Requirements for Performing an Audit Article 13

- (1) An auditor shall perform audit of financial statements and records.
- (2) An auditor may engage other persons to assist during the performance of audit, provided that those persons are performing audit activities under the supervision of an auditor.
- (3) An auditor shall sign an audit report with an opinion on financial statements of an organization.

- (4) An audit may not be performed by an auditor:
- 1) Who is a shareholder, member or founder of a legal person referred to in Article 12, paragraph 2 subject to an audit;
 - 2) Who performs accounting activities or provides consulting services for the needs of a legal person subject to an audit;
 - 3) In other cases defined by the Code of Ethics.

3. License Issuing to Auditor

Article 14

- (1) An audit may be performed by a person who meets the following requirements:
- 1) Is a certified accountant;
 - 2) Has been engaged in activities of auditing legal persons referred to in Article 12, paragraph 2 of this Law for a minimum period of twenty four months under the supervision of an auditor;
 - 3) Has not been convicted of a crime that makes the person unworthy to perform the activities in the area of accounting and auditing.
- (2) Competent body shall determine whether the requirements referred to in paragraph 1 of this Article are met, and it shall issue a license of auditor, unless otherwise prescribed by separate regulations.

4. Audit Firm

Article 15

- (1) An audit firm may be established to perform auditing activity, provided that it has at least one full time employed auditor.
- (2) An audit firm or an auditor performing the auditing activity shall be obliged to sign a contract of compulsory liability insurance against damage that could be incurred to a person for whom the audit is performed.
- (3) The competent body shall prescribe the insurance amount referred to in paragraph 2 of this Article.

5. Performing Audit

Article 16

Auditors or audit firms may perform the audit at the territory of Montenegro if they meet the requirements prescribed by this Law.

V BREACH OF PROFESSIONAL CONDUCT RULES

Article 17

- (1) A license may be revoked from an auditor provided that he performs auditing activities in an unprofessional manner and in compliance with the ISA and the Code of Ethics.
- (2) The competent body shall issue a decision on revocation of auditor's license.
- (3) The decision referred to in paragraph 2 of this Article shall be final and the administrative dispute can be instituted against it.
- (4) An auditor whose license is revoked shall be prohibited to perform the auditing activity or business in capacity of an auditor employed with an audit firm, as well as to own ownership and management rights in the audit firm for the period of 10 years upon the finality of the decision.

VI OVERSIGHT

Article 18

The competent body shall perform oversight of the implementation of this Law.

The competent body, for the purpose of more efficient and cost-effective performance of activities in the area of application of this Law, may delegate certain part of the activities to a professional organization with the status of a legal entity.

VII PENALTY PROVISIONS

Article 19

- (1) A pecuniary fine in the amount of ten fold to three hundred fold of the amount of minimum wage in Montenegro shall be imposed for an offence on a legal person that fails to maintain business books in the deadlines defined in Article 10 of this Law.
- (2) A pecuniary fine in the amount of twenty fold of the amount of the minimum wage in Montenegro shall be also imposed for the offence referred to in paragraph 1 of this Article on a responsible person in the legal entity.

Article 20

- (1) A pecuniary fine in the amount of 20 fold to 200 fold of the amount of minimum wage in Montenegro shall be imposed for an offence on a legal person referred to

in Article 12 paragraph 2 of this Law that adopts audit report signed by an auditor or audit firm not licensed by the competent body.

- (2) A pecuniary fine in the amount of 6 fold to 20 fold of the minimum wage in Montenegro shall be also imposed for the offence referred to in paragraph 1 of this Article on a responsible person in the legal person referred to in Article 12 paragraph 2 of this Law.

Article 21

- (1) A pecuniary fine from 20 fold to 200 fold of the amount of minimum wage in Montenegro shall be imposed for an offence on a legal person if it fails to keep business books in accordance with this Law.
- (2) A pecuniary fine in the amount of 6 fold to 20 fold of the amount of minimum wage in Montenegro shall be also imposed for the offence referred to in paragraph 1 of this Article on a responsible person in the legal person.

Article 22

- (1) A pecuniary fine in the amount of 20 fold to 200 fold of the amount of minimum wage in Montenegro shall be imposed for an offence on an audit firm that performs auditing activity but does not meet the requirements prescribed by articles 13, 15 and 16 of this Law.
- (2) A pecuniary fine in the amount of 6 fold to 20 fold of the amount of minimum wage in Montenegro shall be also imposed for the offence referred to in paragraph 1 of this Article on a responsible person in the audit firm.

Article 23

A pecuniary fine in the amount of 20 fold to 200 fold of the amount of minimum wage in Montenegro shall be imposed for an offence on an audit firm if it fails to perform audit in accordance with this Law, IAS and ISA, IFRS and Code of Ethics.

Article 24

A pecuniary fine in the amount of 10 fold to 20 fold of the amount of minimum wage in Montenegro shall be imposed on an auditor that fails to perform audit in accordance with this Law, IAS and ISA, IFRS and Code of Ethics.

Article 25

A pecuniary fine in the amount of 10 fold to 20 fold of the amount of minimum wage in Montenegro shall be imposed for an offence on a physical person who performs auditing activities but does not meet the requirements prescribed by Articles 13 and 14 of this Law.

Article 26

A pecuniary fine in the amount of 10 fold to 20 fold of the minimum wage in Montenegro shall be imposed for an offence on a physical person concludes a contract with a legal person under false pretence of certified accountant, but who does not meet the requirements prescribed by Article 11 of this Law.

VIII TRANSITIONAL AND FINAL PROVISIONS

Article 27

Certificate of an accountant may be acquired by a person who acquired the title of a certified accountant in a member country or associated member of IFAC or IASB, provided that the program according to which the applicant acquired the expert qualification corresponds to the program of education and examination of the competent body.

Article 28

Exceptionally to Article 5 of this Law, legal persons having less than 500,000 euros of annual revenue may apply either the accrual based accounting or cash based accounting, applying simplified accounting methods, in accordance with Law on Accounting and Auditing ("Official Gazette of ROMN", No 6/02), until the 31st of March 2006.

Article 29

- (1) A person that obtained a license based on the Law on Accounting and Auditing ("Official Gazette of ROMN", No 6/02) shall be obliged to pass examinations envisaged by the program for certification of accountants by the 31st of March 2006.
- (2) License of the person that fails to pass the examination referred to in paragraph 1 of this Article shall cease to be valid on the 1st of April 2006.

Article 30

Provision of Article 15, paragraph 2 of this Law shall be applied as of the 1st of April 2006.

Article 31

By coming into force, this Law shall supersede the Law on Accounting and Auditing ("Official Gazette of ROMN", No 06/02).

Article 32

This Law shall enter into force on the eighth day from the day of its publication in the "Official Gazette of the Republic of Montenegro".