

Pursuant to Article 88 item 2 of the Constitution of the Republic of Montenegro I hereby pass the

DECREE PROMULGATING THE LAW ON ACCOUNTING AND AUDITING

(Official Gazette of the Republic of Montenegro, No 69/05 of 18 November 2005; Official Gazette of Montenegro No 80/08 of 26 December 2008, 32/11 of 1 July 2011)

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

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

The President of the Republic of Montenegro
Flip Vujanović, m.p.

LAW ON ACCOUNTING AND AUDITING

I BASIC PROVISIONS

1. General Provisions

Article 1

- (1) This Law governs the conditions and the manner for keeping business books, preparation and presentation of financial statements (hereinafter referred to as the accounting), as well as the conditions and the manner for conducting a procedure and performing audits of financial statements (hereinafter referred to as the auditing) and other issues important for accounting and auditing.
- (2) This Law shall apply to legal entities registered for performing economic and to parts of foreign companies (hereinafter referred to as the legal entities).
- (3) This Law shall not apply to entities financed from the budget and extra-budgetary funds.

2. Meaning of Specific Terms

Article 2

Specific terms, as used in this Law, shall have the following meaning:

- Auditing Firm shall mean 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;
- Auditing shall mean 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, by applying the International Standards of Auditing and Code of Ethics;
- Financial Statements shall mean, in accordance with IAS or IFRS:
 - Balance sheet,

- Income statement,
- Cash flow statement,
- Statement of changes in equity,
- Accounting policies and notes to the Financial Statements;
- Financial Reports shall represent the set of Financial Statements and other supporting reports that might also include reports of management, comments of the board, auditor's opinions and reports, and other documents;
- IAASB shall mean the International Auditing and Assurance Standards Board as an independent regulatory body of the International Federation of Accountants (IFAC);
- IASB shall mean the International Accounting Standards Board as an independent regulatory body of the International Financial Reporting Standards Foundation (IFRS Foundation);
- IFAC shall mean the International Federation of Accountants, a global regulatory body in the area of accounting profession;
- IFRIC (International Financial Reporting Interpretations Committee) shall mean a committee of the IASB in charge of analysis of issues in the accounting area within the context of the existing International Accounting Standards (IAS) and IASB Framework;
- Code of Ethics for Professional Accountants shall mean the Code accepted based on the IFAC's International Code of Ethics for Professional Accountants – ICEPA, which defines generally accepted standards of conduct for professional accountants;
- IAS shall mean the 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;
- Statistical annex shall mean the report containing information about the legal entity, which is submitted along with financial statements;
- ISA shall mean the International Standards of Auditing as promulgated by the IAASB and IFAC;
- Registry shall mean the register of certified accountants, authorized auditors, and auditing firms;
- Authorized Auditor shall mean a natural person who holds a licence for carrying out audits;
- Auditor of a group of related legal entities shall mean an authorized auditor or auditing firm that carries out audits of consolidated financial statements.
- Authorized Professional Accountant shall mean an accountant having a certificate of the state administration authority competent for finance issued in accordance with the Law on Accounting and Auditing (Official Gazette of the Republic of Montenegro, No 6/02);
- Certified Accountant shall mean an accountant having a certificate of the state administration authority competent for finance (hereinafter referred to as the Competent Authority).

II FINANCIAL STATEMENTS AND STANDARDS

Article 3

- (1) Legal entities shall compile financial statements in compliance with the International Accountant Standards (IAS), or the International Financial Reporting Standards (IFRS), as promulgated by the IASB, and adopted and published by the Competent Authority that obtained a translation and publishing copyright from the relevant body of the International Federation of Accountants (IFAC).

- (2) Auditing and presentation of financial statements shall be done in accordance with the International Standards of Auditing (ISA) as promulgated by the IAASB, as the body of the International Federation of Accountants (IFAC), and adopted and published by the Competent Authority.

Classification of Legal Entities

Article 3a (Article 3a of this Law shall apply as of 1 July 2009)

- (1) Legal entities, within the meaning of this Law, shall be classified into small, medium and large ones, depending on the average number of employees, aggregate revenue on the annual level, and aggregate assets.
- (2) Legal entities meeting two out of three below stated criteria, as of the day the financial statement is compiled, shall be classified as medium-size legal entities:
 - 1) having the average number of employees in the year the annual report is submitted for ranges from 50 to 250;
 - 2) having aggregate annual revenue ranging from EUR 10,000,000 to 50,000,000;
 - 3) having aggregate assets ranging from EUR 10,000,000 to 43,000,000.
- (3) Legal entities having two out of three criteria lower than the lowest criteria referred to in paragraph 2 of this Article, shall be classified as the small legal entities, whereas legal entities having two out of three criteria higher than the highest criteria referred to in paragraph 2 of this Article shall be classified as the large legal entities.
- (4) Classification in line with the criteria referred to in paragraphs 2 and 3 of this Article shall be conducted by the legal entity independently as of the day the financial statements are compiled, and shall use the obtained data in the following business year.
- (5) Newly established legal entities shall be classified, in accordance with paragraphs 2 and 3 of this Article, based on the data from the financial statements of the current business year and the number of months of operation, and the established data shall be used for the current and subsequent business year.
- (6) The average number of employees shall be calculated by dividing the aggregate number of employees at the end of each month, including the employees abroad, by the number of months.

Consolidated Statements

Article 3b

- (1) Legal entities that have control (parent legal entities) over one or more legal entities (subsidiary legal entities) shall be obliged to compile, submit, and disclose consolidated financial statements, in line with the IAS.
- (2) Consolidated financial statements shall mean statements of a single economic unit comprising of the parent and all subsidiary legal entities.

III ACCOUNTING AND BOOKKEEPING

1. Business Books

Article 4

- (1) Legal entities shall be obliged to keep the business books.
- (2) Business books shall be kept as a double entry bookkeeping system.
- (3) Business books shall mean the transaction journal, the general ledger and ancillary records.
- (4) Legal entities shall regulate the organisation of accounting activities by general act in accordance with law.
- (5) A legal entity shall be obliged to register all business transactions and keep records thereof in the business books.
- (6) Business transactions shall be registered in line with the accrual accounting method.
- (7) The accounting records must be based on credible accounting documents, in accordance with the rules of proper bookkeeping, and must demonstrate true financial position and operating results.

2. Principles of Accrual and Cash Based Accounting

Article 5

Deleted (*Official Gazette of Montenegro*, No 80/08)

3. Preparation and Submission of Financial Statements

Article 6

- (1) Legal entities shall be obliged to prepare annual financial statements and consolidated statements as of 31st December of the business year, or as of the day of registration of status changes (merger, acquisition, division) or as of the day of the adoption of the decision on voluntary liquidation of the legal entity.
- (2) Legal entities shall be obliged to submit financial statements in paper and electronic form to the Tax Administration at the latest by 31st March of the current for the previous year.
- (3) The statistical annex shall also be submitted along with the statements referred to in paragraph 1 of this Article.
- (4) The balance sheet and income statement shall be published on the website of the Tax Administration.
- (5) The Competent Authority shall stipulate a more detailed manner of keeping financial statements referred to in paragraph 1 of this Article and the content of the statistical annex.

Obligation to Compile Financial Statements

Article 6a

- (1) A large legal entity, medium-size legal entity, and parent legal entity having an obligation to compile consolidated financial statements, a legal entity issuing securities and other financial instruments traded on an organized market shall be obliged to submit the financial statements and consolidated statements to the Tax Administration in line with IAS/IFRS requirements.
- (2) A small legal entity shall be obliged to submit the balance sheet, income statement, and statistical annex to the Tax Administration.

Submission of Financial Statements

Article 6b

- (1) A joint stock company and other legal entity issuing securities and other financial instruments traded on an organized market, as well as a parent legal entity obliged to compile consolidated financial statements, shall be obliged to compile and submit to the Securities Commission in paper and electronic form the annual and quarterly financial statements.
- (2) The Securities Commission shall publish financial statements referred to in paragraph 1 of this Article on its website.
- (3) The Securities Commission shall stipulate a more detailed content, deadlines, and the manner of compiling and submitting statements referred to in paragraph 1 of this Article.
- (4) Notwithstanding provisions of paragraph 1 of this Article, the banks shall be obliged to compile and submit, in paper and electronic form, the annual and quarterly financial statements to the Central Bank of Montenegro, while the insurance companies shall be obliged to compile and submit, in paper and electronic form, the annual and quarterly financial statements to the Insurance Supervision Agency.
- (5) The Central Bank of Montenegro and the Insurance Supervision Agency shall publish the financial statements referred to in paragraph 4 of this Article on their respective websites.
- (6) The Central Bank of Montenegro and the Insurance Supervision Agency respectively shall stipulate a more detailed content, deadlines and the manner of compiling and submitting statements referred to in paragraph 4 of this Article.

4. Keeping Business Books

Article 7

- (1) A person appointed by a general act of a legal entity shall keep business books and compile financial statements of the legal entity.
- (2) Keeping of business books and compiling of financial statements referred to in paragraph 1 of this Article may be carried out by a person that has not been convicted for criminal offences making him/her unworthy to perform activities in the field of accounting.
- (3) Business books shall be kept in written and electronic form.

(4) Deleted

5. Signing of Financial Statements

Article 8

A person that has compiled the financial statement of the legal entity, a head of financial-accounting affairs, chairperson of the board of directors, or an executive director shall be obliged to sign the financial statements of the legal entity and shall be responsible for their accuracy.

Article 9

Deleted (*Official Gazette of Montenegro*, No 80/08)

7. Closing and Safekeeping Business Books

Article 10

A legal entity shall be obliged to harmonize business books with a performed inventory of assets and liabilities and close them as of 31st December of the business year, and to 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 the payments operation in an institution that performs such operations, are to be kept for at least three years;

Year-end accounts, business book and bookkeeping documents shall be kept in original.

The Competent Authority shall stipulate the manner and deadlines for carrying out the inventory referred to in paragraph 1 of this Article.

8. Certification of Accountants

Article 11

- (1) An authorized professional accountant may acquire the professional title of certified accountant if he/she passes the exams set forth by the certification program adopted by the Competent Authority in accordance with the IFAC Education Standard.
- (2) The certificate of an accountant may be acquired by a person who:
 - 1) passed the exams set forth by the certification program adopted by the Competent Authority, in accordance with the IFAC Education Standards;
 - 2) holds a university degree;
 - 3) has three years of work experience in accounting activities;
 - 4) was not convicted of a crime that makes him/her unworthy to perform activities in the area of accounting.

- (3) The Competent Authority, or a legal entity entrusted to perform such affairs, shall organize the taking of the exam for acquiring the professional title of the certified accountant.
- (4) A person, who acquired a title of the certified accountant in an organization which is a member of IFAC or IASB, may also acquire the title of the certified accountant, provided that the curriculum under which the applicant acquired professional qualifications corresponds to the programme of education and taking of the exam of the Competent Authority.
- (5) Authorised professional and certified accountants must act in line with the Code of Ethics for Professional Accountants.
- (6) The Competent Authority shall stipulate the content of the documentation, which is to be submitted for acquiring the professional title of certified accountant by way of its regulation.
- (7) The Competent Authority shall determine whether the requirements referred to in paragraph 2 of this Article are met, and shall issue the certificate for the accountant.
- (8) The Competent Authority shall stipulate detailed requirements and documents for recognition of certificates acquired with an organised member of IFAC or IAASB.

IV AUDITING OF FINANCIAL STATEMENTS

1. Obligatory Nature of Audit

Article 12

- (1) The audit of financial statements shall be obligatory for joint stock companies, large legal entities, and parent legal entities that jointly with the subsidiary legal entities meet the requirements to be classified in the large legal entity category.
- (2) The audit of financial statements shall also be obligatory for insurance companies, banks, and other financial institutions, the Central Depository Agency (CDA), authorized participants on the securities markets, investment funds, and other collective investment schemes.
- (3) Legal entities referred to in paragraphs 1 and 2 of this Article shall be obliged to submit to the Tax Administration, in paper and electronic form, a report on the audit with an opinion on the financial statements, at the latest by 30 June of the current for the previous business year.
- (4) The Tax Administration shall publish on its website the report on the audit with an opinion on the financial statements.
- (5) Auditing documents shall be kept within deadlines stipulated for documents that were subject of the audit.

2. Requirements for Carrying Out an Audit

Article 13

- (1) An authorized auditor shall carry out an audit of financial statements and records.
- (2) An authorized auditor may engage other persons as assistance during the carrying out of the audit, provided that such persons are carrying out auditing activities under the supervision of an authorised auditor.
- (3) An authorized auditor shall sign an audit report with an opinion on financial statements of an organization.
- (4) The audit may not be performed by an authorized auditor:
 - 1) who is a shareholder, member or founder of the legal entity referred to in Article 12 paragraph 2, subject to the audit;
 - 2) who performs accounting activities or provides consulting services for the needs of the legal entity subject to the audit;
 - 3) in other cases stipulated by the Code of Ethics.

3. License Issuing for Carrying Out an Audit

Article 14

- (1) A licence for performing an audit may be issued to a person meeting the following requirements:
 - 1) who holds the professional title of a certified accountant;
 - 2) who has carried audit activities of legal entities, for a minimum of three years after has acquired the title of the certified accountant, under the supervision of an authorized auditor based on an employment contract;
 - 3) who was not convicted of a crime that makes such person unworthy to carry out the activities in the area of accounting and auditing.
- (2) The Competent Authority shall stipulate detailed requirements and the documentation to be submitted for obtaining a licence for carrying out of the audit by way of its regulation.
- (3) The Competent Authority shall determine whether the requirements referred to in paragraph 1 of this Article are met, and it shall issue a license for carrying out of the audit.

4. Auditing Firm

Article 15

- (1) An auditing firm may also carry out auditing activity in accordance with law, where:
 - three-quarters of votes belong to auditing firms or authorised auditors that meet requirements referred to in Article 14 of this Law or auditing firms or authorised auditors registered in a member state of the European Union;
 - majority, and not more than three-quarters of members of the management of the firm, are authorised auditors that meet requirements referred to in Article 14 of this Law or authorised auditors or auditing firms authorised in a member state of the European Union.

- (2) If the firm referred to in paragraph 1 indent 2 of this Article is composed of only two members, one of the members must be a person who meets requirements referred to in Article 14 of this Law.
- (3) Auditors from countries that are not the member states of the European Union may carry out auditing activities on the territory of Montenegro after they register a business unit or representative office in accordance with a law governing business organisations.
- (4) An auditing firm or an authorized auditor carrying out the auditing activity shall be obliged to enter into a contract on compulsory third-party liability insurance against damage that could be incurred to a person for whom the audit is performed.
- (5) The Competent Authority shall prescribe the sum insured referred to in paragraph 4 of this Article.

5. Carrying Out an Audit

Article 16

- (1) Authorized auditors and auditing firms may carry out the audit at the territory of Montenegro provided they meet the requirements stipulated by this Law.
- (2) The authorized auditor must act in line with the Code of Ethics.
- (3) Authorized auditors and auditing firms may only provide services of appraisal of assets, liabilities and capital, financial analysis services and development of financial detailed studies, in addition to the audit of financial statement.

Operating License

Article 16a

- (1) An auditing firm may carry out audit activities only based on an operating license.
- (2) The Competent Authority shall grant and revoke the operating license referred to in paragraph 1 of this Article.
- (3) The license referred to in paragraph 1 of this Article shall be granted based on an application.

Decision on Application

Article 16b

The Competent Authority shall be obliged to render a decision as regard to the application for granting an operating license within seven days from the day of duly submitted application.

Revoking the License

Article 16c

The operating license shall be revoked from the auditing firm that fails to meet the requirements referred to in Article 15 of this Law.

Auditor's Opinion Article 16d

- (1) An auditor's opinion on completed audit of financial statements (hereinafter referred to as the auditor's opinion) shall be prepared in line with the IAS.
- (2) The auditor's opinion in written form must contain a clearly expressed opinion and opinion with explanatory note on financial statements viewed as a whole.
- (3) The auditor's opinion shall be prepared and signed by an authorized auditor on his/her own behalf or by an authorised person on behalf of the auditing firm.
- (4) The financial statements that were subject of the audit shall be submitted along with the auditor's opinion.

AUDITING BOARD

Article 16e

- (1) Large legal entities must have an auditing board having at least three members.
- (2) A general shareholders meeting of a joint stock company or a competent body as set by the articles of association shall appoint the auditing board.
- (3) At least one member of the auditing board must be an expert in the field of accounting and auditing.

Auditing Board's Competency Article 16f

The auditing board shall:

- 1) monitor the financial reporting procedure;
- 2) monitor the effectiveness of internal control of the company and internal audit;
- 3) monitor statutory audit of annual and consolidated financial statements;
- 4) monitor the independence of engaged authorised auditors or the auditing firms carrying out audits, as well as contracts on supplementary services referred to in Article 16 paragraph 3 of this Law;
- 5) give recommendations to the general shareholders meeting of the company or to the founders with regard to the selection of the authorised auditor or auditing firm;
- 6) discuss plans and annual report of the internal control, as well as other issues related to financial reporting and audit.

Reporting Obligation Article 16g

The authorised auditor or auditing firm shall be obliged to report to the auditing board of the legal entity on key issues arising from the audit, and especially on operation and omissions of the internal control.

Internal Auditor Article 16h

- (1) A large legal entity must have an internal auditor.
- (2) An internal auditor or a special organizational part of the legal entity may carry out the internal audit function with the large legal entity.
- (3) The person performing the internal audit activities cannot perform other activities in the large legal entity.
- (4) The internal auditor or a person managing the organizational part in charge of the internal audit must have a university degree and at least three years work experience in accounting or auditing activities.

Internal Audit Plan Article 16i

- (1) The internal audit in the large legal entity shall be performed based on the annual internal audit plans, which are prepared based on risk assessment and shall contain, including but not limited to, the following:
 - 1) objectives and tasks of the internal audit;
 - 2) areas of operation with especially pronounced risks;
 - 3) areas of operation that will be subject to an audit;
 - 4) degree of the internal audit coverage by legal entity's specific areas of operation;
 - 5) audit procedures for the most important areas of operation of the legal entity;
 - 6) deadlines for the performance of planned activities;
 - 7) reporting schedule on the internal audit findings.

Standards for Organizing Internal Audit Article 16j

The functioning of the internal audit shall be organized in such manner that provides for the continuity in performing the internal audit function, accessibility of all operations for audit, independence, objectivity and impartiality in the work of the internal auditor, and timely reporting on the internal audit findings, adequate and organized internal audit performance.

Register Article 16k

- (1) The Competent Authority shall keep a register of authorized auditors and a register of auditing firms, as a public record.
- (2) The register of authorised auditors shall contain:
 - 1) name, surname, and address of the authorized auditor;
 - 2) number and date of the decision on issuing license for carrying out audit;
 - 3) number and date of the decision on revoking license for carrying out audit;
 - 4) name, address, and the registration number of the auditing firm whereat the authorized auditor is employed or whereat he/she is otherwise engaged;

- 5) data on registration of the authorized auditor with competent authorities of another state (name of the competent authority for registration and registration number).
- (3) The register of auditing firms shall contain:
- 1) name, registered office, and registration number of the auditing firm;
 - 2) number and date of the decision on issuing operating license;
 - 3) number and date of the decision on revoking operating license;
 - 4) person in charge of contact and website address;
 - 5) name and registration number of authorized auditors who are employed in the auditing firm or otherwise engaged by the firm;
 - 6) name, surname, and address of founders of the firm;
 - 7) name, surname, and address of members of the board of directors or executive director;
 - 8) data on registration with competent authorities of other states (name of the competent authority for registration and registration number) if any.
- (4) The business organization which was not granted an operating license by the Competent Authority must not contain the words "auditing firm" in its name.

Change of Information Article 16I

Authorized auditors and auditing firms shall be obliged to inform the Competent Authority on changes of information entered in the register of authorized auditors and register of auditing firms, no later than seven days as of the day the change occurred.

V BREACH OF PROFESSIONAL CONDUCT RULES

Revoking a License of an Authorised Auditor Article 17

- (1) A license may be revoked from an authorised auditor in the event that an authorized auditor carries out auditing activities in an unprofessional manner and in compliance with the ISA and the Code of Ethics.
- (2) A license shall be revoked from an authorised auditor, who acquired a license based on a recognised certificate, in the event that an organisation that issued such certificate revokes the certificate.
- (3) The Competent Authority shall issue a decision on revocation of the authorised auditor's license.
- (4) The decision referred to in paragraph 2 of this Article shall be final and an administrative dispute can be instituted against it.
- (5) The authorised auditor whose license was revoked shall be prohibited to perform the auditing activity, or auditing tasks in virtue of an auditor employed with an auditing firm, as well as to have ownership and management rights in an auditing firm for the period of ten years upon the decision becomes final and non-appealable.

Va THE COUNCIL FOR ACCOUNTING AND AUDITING

Establishment Article 17a

- (1) The Government of Montenegro (hereinafter referred to as the Government) shall establish the Council based on the proposal of the Competent Authority.
- (2) The registered office of the Council shall be in Podgorica.

Composition and the Term of Office Article 17b

- (1) The Council shall have seven members.
- (2) The Council members shall be appointed with the term of office of five years and they may be reappointed for the same period.
- (3) The Council members shall be appointed from the chorus of experts, at the proposal of the Ministry of Finance, the Ministry for Economic Development, the Central Bank of Montenegro, the Securities Commission, the Commercial Court, the Insurance Supervision Agency, and the institution which has been delegated with the activities of the state administration authority competent for accounting and auditing affairs by the Competent Authority, and who have knowledge in the field of accounting, finances, and auditing.
- (4) The Council shall have a secretary to be appointed by the Government for a period of five years.
- (5) The Government shall adopt the act on appointment of the Council members and of the secretary.

Scope of Operation Article 17c

- (1) The Council shall review and take position about the issues of: the development and improvement of the accounting and auditing practice in Montenegro; provision of advice to policy makers, regulators, and the state authorities; provision of expert assistance to improve quality of financial reporting; and other matters important for the implementation and improvement of the accounting and auditing practice in Montenegro
- (2) The Council shall review and issue opinions about drafts and proposals of laws and other regulations having importance for the accounting and auditing.
- (3) The Council shall submit the opinion referred to in paragraphs 1 and 2 of this Article to A competent authority that has prepared the law.
- (4) The competent authority referred to in paragraph 3 of this Article shall be obliged to inform the Council about the positions of the competent authority taken with regard to the opinion of the Council within 30 days from the day of the submission of the opinion.

- (5) The Council may submit its opinion to the Government provided that the competent ministry and the Council do not reach agreement with regard to the opinion about the specific regulation.

Administrative-Technical Affairs Article 17d

- (1) The Secretary shall perform administrative-technical affairs for the Council.
- (2) Resources for the operation of the Council shall be provided from the Budget of Montenegro.
- (3) The work of the Council shall be public.
- (4) The Council shall adopt the Rules of Procedures, which shall regulate the organization and the manner of operation of the Council.
- (5) The Council shall submit an annual report on operations to the Government.

Article 17e

The act on the appointment of the Council members and the secretary, in accordance with this Law, shall be adopted within 60 days as of the day this Law enters into force.

VI SUPERVISION

Article 18

- (1) The Competent Authority shall perform the supervision over the implementation of this Law and regulations adopted pursuant to this Law.
- (2) An authorised officer of the administrative authority in charge of taxes shall carry out the inspection supervision affairs referred to in paragraph 1 of this Article in accordance with the law governing the inspection supervision.
- (3) In addition to obligations and authorizations established by the law governing the inspection supervision, the authorized officer referred to in paragraph 2 of this Article shall have the obligation and authority to examine:
 - accuracy of classification of legal entities into small, medium-sized and large ones;
 - whether legal entities have regulated the organization of accounting activities in line with this Law;
 - whether business books and accounting records are kept in line with this Law;
 - whether legal entities submit the annual financial statements and consolidated statements to the Tax Authority within the deadlines established by this Law and whether they were published in a prescribed manner;
 - whether the statistical annex is also submitted with the financial statements;
 - whether financial statements and consolidated statements were signed by the responsible person;

- whether legal entities have submitted to the Tax Authority an audit report with an opinion on conducted audit in paper and electronic form, within the deadline prescribed by law, and whether it was published in a prescribed manner;
- whether legal entities referred to in Article 6b paragraph 1 of this Law have submitted to the Securities Commission the annual and quarterly financial statements, within the deadline prescribed by law;
- whether legal entities referred to in Article 6b paragraph 4 of this Law have submitted to the Central Bank of Montenegro or to the Insurance Supervision Agency the annual and quarterly financial statements within the deadline prescribed by law;
- whether the auditing firm carries out auditing activities pursuant to an operating license.

Article 18a

Minutes shall be kept on the performed supervision with a legal entity.

A copy of the minutes shall be delivered to the legal entity.

Article 18b

If an authorized officer of the competent authority establishes that provisions of this Law were violated by a general or individual act or an action taken, he/she shall have an obligation and authorisation to:

- 1) order by way of a decision that the established violations of this Law are to be corrected and to determine a deadline within which it must be done;
- 2) undertake other measures and actions as authorized for by law.

Article 18c

- (1) A complaint may be lodged with the Competent Authority against the decision of the authorized officer within 15 days as of the day of delivering the decision.
- (2) The complaint against the decision referred to in Article 18b paragraph 1 of this Law shall not postpone the enforcement of the decision.
- (3) The Competent Authority shall be obliged to render a decision regarding the complaint within 30 days as of the day of receiving the complaint.
- (4) An administrative dispute may not be initiated against the final decision referred to in Article 18b paragraph 1 item 1 of this Law and the decision referred to in paragraph 3 of this Article.
- (5) If the auditing firm fails to act in line with the order and within the deadline established in the final decision referred to in Article 18b paragraph 1 of this Law, the Competent Authority shall render a decision on revoking the licence for the carrying out auditing activities, at the proposal of the authorised officer.
- (6) The decision referred to in paragraph 5 of this Article shall be final and an administrative dispute may be initiated against it.
- (7) The Competent Authority shall also deliver a copy of the decision referred to in paragraph 5 of this Article to the organisation competent for keeping the register of business entities.

VII PENALTY PROVISIONS

Article 19

- (1) A pecuniary fine in the amount from 550 euro to 16,500 euro shall be imposed for an offence on a legal entity that fails to safekeep business books within the deadlines defined in Article 10 of this Law.
- (2) Pecuniary fine in the amount of 50 euro shall also be imposed for an offence referred to in paragraph 1 of this Article on a responsible person of the legal entity.

Article 19a

- (1) A pecuniary fine in the amount from 1,100 euro to 16,500 euro shall be imposed for an offence on a legal entity that fails to compile financial statements in accordance with the IAS or IFRS (Article 3 paragraph 1).
- (2) Pecuniary fine in the amount from 550 euro to 1,100 euro shall also be imposed for an offence referred to in paragraph 1 of this Law on a responsible person of the legal entity.

Article 19b

- (1) A pecuniary fine in the amount from 1,100 euro to 16,500 euro shall be imposed for an offence on a legal entity that fails to compile, submit, and disclose consolidated financial statements in accordance with the IAS (Article 3b paragraph 1).
- (2) Pecuniary fine in the amount from 550 euro to 1,100 euro shall also be imposed for an offence referred to in paragraph 1 of this Article on a responsible person of the legal entity.

Article 19c

- (1) A pecuniary fine in the amount from 1,100 euro to 16,500 euro shall be imposed for an offence on the legal entity referred to in Article 6a paragraphs 1 and 2 of this Law, that fails to submit, in paper and electronic form, financial statements and consolidated financial statements to the Tax Authority, within the deadline prescribed under Article 6 paragraph 2 of this Law (Article 6 paragraph 2).
- (2) Pecuniary fine in the amount from 550 euro to 1,100 euro shall also be imposed for the offence referred to in paragraph 1 of this Article on a responsible person of the legal entity.

Article 19d

- (1) A pecuniary fine in the amount from 1,100 euro to 16,500 euro shall be imposed for an offence on the legal entity referred to in Article 6b paragraph 1 of this Law, that fails to submit annual and quarterly financial statements in paper and electronic form to the Securities Commission, within the deadline prescribed under Article 6 paragraph 2 of this Law. (Article 6 paragraph 2)
- (2) A pecuniary fine in the amount from 1,100 euro to 16,500 euro shall be imposed for an offence on the legal entity referred to in Article 6b paragraph 4 of this Law, that fails to submit annual and quarterly financial statements in paper and electronic form to the

Central Bank of Montenegro or to the Insurance Supervision Agency, within the deadline prescribed under Article 6 paragraph 2 of this Law. (Article 6 paragraph 2)

- (3) Pecuniary fine in the amount from 550 euro to 1,100 euro shall also be imposed for the offence referred to in paragraphs 1 and 2 of this Article on a responsible person of the legal entity.

Article 19e

- (1) A pecuniary fine in the amount from 1,100 euro to 11,000 euro shall be imposed for an offence on a legal entity that fails to submit the statistical annex along with the financial statements (Article 6 paragraph 3).
- (2) Pecuniary fine in the amount from 550 euro to 1,100 euro shall also be imposed for an offence referred to in paragraph 1 of this Article on the responsible person of the legal entity.

Article 19f

- (1) A pecuniary fine in the amount from 550 euro to 20,000 euro shall be imposed for an offence on the legal entity if it submits to the Tax Administration or organisations referred to in Article 6b of this Law unsigned financial statements (Article 8).
- (2) Pecuniary fine in the amount from 550 euro to 1,100 euro shall also be imposed for the offence referred to in paragraph 1 of this Article on a responsible person of the legal entity.

Article 19g

- (1) A pecuniary fine in the amount from 550 euro to 20,000 euro shall be imposed for an offence on a legal entity if business books are not harmonized with executed inventory of assets and liabilities (Article 10 paragraph 1).
- (2) Pecuniary fine in the amount from 550 euro to 1,100 euro shall also be imposed for the offence referred to in paragraph 1 of this Article on a responsible person of the legal entity.

Article 20

- (1) A pecuniary fine in the amount from 1,100 euro to 11,000 euro shall be imposed for an offence on the legal entity referred to in Article 12 paragraph 1 of this Law that adopts auditor's report signed by an auditor not licensed by the competent authority. (Article 16)
- (2) A pecuniary fine in the amount from 330 euro to 1,100 euro shall also be imposed for the offence referred to in paragraph 1 of this Article on a responsible person of the legal entity referred to in Article 12 paragraph 1 of this Law.

Article 21

- (1) A pecuniary fine in the amount from 1,100 euro to 11,000 euro shall be imposed for an offence on a legal entity that fails to keep business books in accordance with this Law. (Article 10)

- (2) Pecuniary fine in the amount from 330 euro to 1,100 euro shall also be imposed for the offence referred to in paragraph 1 of this Article on a responsible person of the legal entity.

Article 21a

- (1) A pecuniary fine in the amount from 1,100 euro to 16,500 euro shall be imposed for an offence on a legal entity that fails to submit an audit report with an opinion on financial statements within the deadline prescribed by Article 12 paragraph 3 of this Law. (Article 12 paragraph 1)
- (2) Pecuniary fine in the amount from 550 euro to 1,100 euro shall also be imposed for the offence referred to in paragraph 1 of this Article on a responsible person of the legal entity.

Article 22

- (1) A pecuniary fine in the amount from 1,100 euro to 11,000 euro shall be imposed for an offence on an auditing firm that carries out auditing activity but does not meet the requirements prescribed under Articles 13, 15, and 16 of this Law. (Article 13, 15 and 16)
- (2) Pecuniary fine in the amount from 330 euro to 1,100 euro shall also be imposed for the offence referred to in paragraph 1 of this Article on a responsible person of the auditing firm.

Article 23

- (1) A pecuniary fine in the amount from 1,100 euro to 11,000 euro shall be imposed for an offence on an auditing firm that fails to carry out audit in accordance with this Law, IAS and ISA, IFRS, and the Code of Ethics. (Article 3)
- (2) Pecuniary fine in the amount from 330 euro to 1,100 euro shall also be imposed for the offence referred to in paragraph 1 of this Article on a responsible person of the auditing firm.

Article 24

A pecuniary fine in the amount 550 euro to 1,100 euro shall be imposed on an auditor that fails to carry out audit in accordance with this Law, IAS and ISA, IFRS, and the Code of Ethics. (Article 3)

Article 25

A pecuniary fine, in the amount from 550 euro to 1,100 euro, shall be imposed for an offence on a natural person that performs auditing activity, but does not meet the requirements prescribed by Articles 13 and 14 of this Law. (Articles 13 and 14)

Article 25a

- (1) A pecuniary fine in the amount from 550 euro to 1,100 euro shall be imposed for an offence on a legal entity (an auditing firm) that fails to notify the Competent Authority within the prescribed deadline on changes of information entered in the register (Article 16l).

- (2) Pecuniary fine in the amount from 50 euro to 1,100 euro shall also be imposed for the offence referred to in paragraph 1 of this Article on a natural person – authorized auditors and a responsible person of the legal entity (the auditing firm).

Article 25b

- (1) A pecuniary fine in the amount from 550 euro to 16,500 euro shall be imposed for an offence on a legal entity which was not granted an operating license by the Competent Authority, and in its name contains the text “auditing firm” (Article 16k paragraph 4).
- (2) Pecuniary fine in the amount from 550 euro to 1,100 euro shall also be imposed for the offence referred to in paragraph 1 of this Article on a responsible person of the legal entity.

Article 26

A pecuniary fine in the amount from 550 euro to 1,100 euro shall be imposed for an offence on a natural person that concludes a contract with the legal entity making a false representation as a certified accountant and who does not meet the requirements prescribed by Article 11 of this Law. (Article 11)

VIII TRANSITIONAL AND FINAL PROVISIONS

Article 27

Deleted (*Official Gazette of Montenegro*, No 80/08)

Article 28

Notwithstanding provisions of Article 5 of this Law, legal entities having annual revenue less than 500,000 euro may use, either the accrual based accounting principle or cash based accounting principle by applying simplified accounting methods, in accordance with the Law on Accounting and Auditing (*Official Gazette of the Republic of Montenegro*, No 6/02) until 31 March 2006.

Article 29

- (1) A person that acquired a license pursuant to the Law on Accounting and Auditing (*Official Gazette of the Republic of Montenegro*, No 6/02) shall be obliged to pass exams envisaged by the program for certification of accountants by 31 March 2006.
- (2) License of the persons that fail to pass the exams referred to in paragraph 1 of this Article shall cease to be valid as of 1 April 2006.

Article 30

The provisions of paragraph 2, Article 15 of this Law shall apply from 1 April 2006.

Article 30a

Large legal entities and auditing firms shall be obliged to harmonize their operations with the provisions of Articles 15, 16e, and 16h of this Law by 1 January 2012.

Article 30b

Notwithstanding provisions of Article 6 paragraph 2 of this Law, the financial statements for 2008 shall be submitted by the 30 June 2009.

Article 31

As of the day this Law enters into force, the Law on Accounting and Auditing (*Official Gazette of the Republic of Montenegro*, No 6/02) shall be rescinded.

Article 31a

Application of Articles 19, 19a, 19b, 19c, 19d, 19e, 19f, 19g, 20, 21, 21a, 22, 23, 24, 25, 25a, 25b, and 26 of this Law shall be postponed until the commencement of application of the Law on Misdemeanours (*Official Gazette of Montenegro*, No 1/11).

Article 32

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