

I. BASIC PROVISIONS

Case

Member 1

This law regulates the conditions and manner of performing the audit of financial statements (hereinafter: audit), issuing and revoking licenses to perform audits to authorized auditors and licenses to perform audits to auditing companies, the obligation of auditing, as well as other issues related to auditing.

Revision

Article 2

An audit is a procedure of checking and evaluating financial statements as well as the data and methods used in the preparation of financial statements, on the basis of which an independent professional opinion is given on whether the financial statements in all materially significant aspects give a true and fair view of the financial state and results of the operation of the legal persons by applying the International Auditing Standards and the Code of Ethics for Professional Accountants.

Financial reports, from paragraph 1 of this article, consist of a set of financial statements and other supporting reports that also include management reports, management comments, opinions and other documents.

Financial statements, from paragraph 2 of this article, in accordance with International Accounting Standards (IAS), i.e. International Financial Reporting Standards (IFRS) are:

- 1) statement of financial position (balance sheet);
- 2) statement of the total result (income statement);
- 3) cash flow statement;
- 4) statement of changes in capital;
- 5) notes to the financial statements.

Auditing standards

Article 3

The audit is performed according to the International Auditing Standards (IAS), which were promulgated by the International Auditing and Assurance Services Board (IAASB), as a body of the International Federation of Accountants (IFAC), and which were adopted and published by the state administration body responsible for financial affairs (hereinafter: the Ministry), i.e. the legal entity entrusted with the performance of those tasks.

Use of gender-sensitive language

Article 4

The terms used in this law for natural persons in the masculine gender imply the same terms in the feminine gender.

The meaning of certain expressions

Article 5

The terms used in this law have the following meanings:

- 1) The Code of Ethics for Professional Accountants is a code accepted on the basis of IFAC's International Code of Ethics for Professional Accountants (ICEPA), which defines generally accepted standards of conduct for professional accountants;
- 2) a certified accountant is a person who has an accountant's certificate issued in accordance with the Law on Accounting;
- 3) the register is a directory of authorized auditors and audit companies;
- 4) the auditor of a group of legal entities is an authorized auditor or audit company, which audits consolidated financial statements;
- 5) the main audit partner is:
 - the authorized auditor designated by the auditing company as the main responsible person in performing the audit on behalf of the auditing company; or
 - in the case of an audit of a group of legal entities, the authorized auditor designated by the auditing company as the main responsible person for the audit of a group of legal entities, that is, the authorized auditor designated as the main responsible person for the audit of a dependent legal entity; or
 - authorized auditor who signs the audit report;
- 6) parent legal entity is a legal entity that controls one or more dependent legal entities;
- 7) a dependent legal entity is a legal entity that is under the control of the parent legal entity;
- 8) group of legal entities is the parent legal entity and all its dependent legal entities;
- 9) a network is an organization whose goal is mutual cooperation, and to which audit companies or authorized auditors belong, with the aim of distributing profits or costs or establishing joint ownership, control or management, joint policies and procedures for auditing quality control, joint business strategies, using a common name or a significant part of professional resources;
- 10) IAASB is the International Auditing and Assurance Standards Board as an independent regulatory body of the International Federation of Accountants (IFAC);
- 11) IFAC is the International Federation of Accountants, which is a global professional body in the field of the accounting profession;
- 12) IFRIC (International Financial Reporting Interpretations Committee) is an IASB committee responsible for analyzing accounting issues in the context of existing International Accounting Standards - MRS (IAS) and the IASB Framework;
- 13) IAS are International Standards of Auditing (International Standards of Auditing - ISA), published by IAASB and IFAC;
- 14) IFRS are International Financial Reporting Standards;
- 15) MSPPIR are International Standards for the Professional Practice of Internal Auditing published by the International Institute of Internal Auditors (IIA).

II. CONDITIONS AND METHOD OF PERFORMING THE AUDIT

Performing an audit

Article 6

The audit is performed by an authorized auditor and an audit company.

An authorized auditor and an audit company can perform an audit on the territory of Montenegro if they meet the conditions established by this law.

Authorized auditor

Article 7

An authorized auditor is a natural person who has an audit license issued in accordance with this law.

An authorized auditor may hire another person to assist in performing the audit, provided that this person performs audit tasks under his supervision.

The authorized auditor is obliged to act in accordance with the Code of Ethics for professional accountants in the performance of audit work.

Professional ethics, independence and objectivity

Article 8

Authorized auditors and auditing firms apply the principles of professional ethics in accordance with the Code of Ethics for Professional Accountants.

The authorized auditor and the audit company are obliged to take into account the possibility of misrepresentation of facts or the existence of irregularities, including fraud or errors, regardless of whether the previous experience of the authorized auditor or the audit company indicates the honesty and integrity of the subject entity. audit and responsible persons in that subject (professional skepticism).

The authorized auditor and the audit company are obliged to act in accordance with paragraph 2 of this article, especially in relation to management decisions related to the fair value of assets, impairment of assets, asset management and future cash flows relevant to the entity's ability to operate regularly.

The authorized auditor, i.e. the auditing company, must be independent from the entity that is the subject of the audit and must not:

- 1) participates in the decision-making of the entity that is the subject of the audit at least during the period of the audit, that is, in the period to which the financial statements that are the subject of the audit refer;
- 2) is in a conflict of interest and is obliged to take measures so that his independence is not affected by relations with the network, managers, other auditors, employees and other persons who provide services or are supervised by an authorized auditor or audit company, as well as persons who are directly or indirectly connected through supervision with an authorized auditor or audit company;
- 3) performs an audit if there is a possibility that it will be the subject of its own audit, self-interest, influence, family relationships or intimidation arising from financial, personal, business relationships, employment-related relationships or other relationships between the authorized auditor, the audit company, its network and persons in a position to influence the result of the audit, and the subject of the audit, for which reasons an objective, reasonable and informed third party, taking into account the applied protection mechanisms, would conclude that the independence of the authorized auditor or audit company is threatened.

The authorized auditor, the audit company, the main audit partner, their employees and the person who provides services or is supervised by the authorized auditor or the audit company and who is directly involved in the audit activities and the persons connected with them may not realize material and other used and to be involved in a transaction related to a financial instrument issued, guaranteed or otherwise supported by the subject of the audit.

The authorized auditor or audit company is obliged to state in the audit report all threats to his independence, as well as the protective mechanisms implemented by him in order to eliminate those threats.

If during the course of the audit there is a purchase, merger or takeover of the entity that is the subject of the audit, the authorized auditor or the audit company is obliged to check their interests or relations with the legal successor of the entity that is the subject of the audit, including the provided additional services that could affect its independence or ability to perform post-purchase, merger or acquisition audits.

In the case referred to in paragraph 7 of this article, the authorized auditor or audit company is obliged to take measures and/or protective mechanisms within three months at the latest to eliminate interests or relationships that could affect the independence and objectivity of the audit.

Owners or shareholders of the auditing company, as well as members of the management or supervisory body of that auditing company or a related person of the auditing company, must not interfere in the conduct of the audit in a way that calls into question the independence and objectivity of the authorized auditor who conducts the audit on behalf of the auditing company. revision.

Limitation of auditing

Article 9

An authorized auditor may not audit a legal entity:

- 1) in which he is a shareholder, member or founder;
- 2) in which he performed accounting duties or provided advisory services for the year for which the audit is being performed;
- 3) in other cases established by the Code of Ethics for professional accountants.

Issuance of a license for auditing

Article 10

An audit license can be issued to a person who:

- 1) has the title of certified accountant;
- 2) has three years of experience in audit work, of which at least two years in audit work under the supervision of an authorized auditor;
- 3) has not been convicted of a criminal offense that makes him unfit to perform work in the field of auditing.

The license for auditing is issued and revoked by the Ministry.

An audit license is issued on the basis of a request submitted to the Ministry.

Evidence of fulfillment of the conditions from paragraph 1 of this article shall be attached to the request for the issuance of a license.

The license is issued for an indefinite period.

Licenses are entered in the register of authorized auditors.

The documentation to be submitted with the request for the issuance of a license for auditing is determined by the Ministry's regulation.

License recognition

Article 11

An audit license can be granted to an authorized auditor from a member state of the European Union, who has a license issued by the competent authority of a member state of the European Union to perform an audit, which in terms of content and conditions for issuance corresponds to the license from Article 10 of this law.

An audit license can be granted, under the condition of reciprocity, to an authorized auditor who has an audit license issued by the competent authority of a third country, which corresponds to the license from Article 10 of this law in terms of content and conditions for issuance.

Persons from para. 1 and 2 of this article, in the process of recognizing licenses, they are required to pass an exam on knowledge of domestic regulations governing taxes, mandatory social insurance and commercial law.

The method and documentation required for the recognition of the license and taking the exam from para. 1, 2 and 3 of this article shall be determined by a regulation of the Ministry.

Continuous professional education

Article 12

In order to maintain theoretical knowledge, professional skills and values at a high level, authorized auditors are obliged to undergo professional training.

Professional training from paragraph 1 of this article is carried out on the basis of the continuing professional education program, which is established by the Ministry.

Professional training from paragraph 1 of this article is organized and implemented by the Ministry, that is, the legal entity entrusted with the performance of these tasks.

The Ministry submits the program from paragraph 2 of this article to the Audit Council for its opinion.

Revocation of license

Article 13

The Ministry will revoke the license of the authorized auditor:

- 1) if it is established that the data on the basis of which the license was issued are untrue;
- 2) in case of revocation of the certificate;
- 3) if he performs auditing tasks unprofessionally and inconsistently with the IAS and the Code of Ethics for Professional Accountants;
- 4) if he performs audit duties contrary to the provisions of this law;
- 5) if he does not remove the irregularities, that is, he does not implement additional measures within the period specified in the control procedure; and
- 6) if he does not meet other conditions established by this law.

The Ministry will notify the authority that issued the license to the person referred to in Article 11 para. 1 and 2 of this law.

Suspension of license

Article 14

The Ministry will temporarily revoke the license for a period of one year from an authorized auditor who does not improve professionally in accordance with Article 12 of this law.

Auditing Company

Article 15

Auditing company is a company established for the purpose of carrying out auditing activities in accordance with this law.

An audit in accordance with this law can be performed by an audit company established in Montenegro in which:

- 1) the majority of voting rights are held by authorized auditors who meet the requirements of Article 10 of this law, that is, audit companies established in Montenegro or in a member state of the European Union;
- 2) the majority, and at most up to three quarters of the members of the company's management, are authorized auditors who meet the requirements of Article 10 of this law, that is, audit companies authorized in a member state of the European Union.

If the company referred to in paragraph 2, item 2 of this article consists of only two members, one member must be a person who meets the requirements of article 10 of this law.

Audit companies from a third country can perform audit services in the territory of Montenegro, if they establish a business unit, i.e. a representative office in Montenegro, in accordance with the law governing companies.

Audit permission

Article 16

The audit company can perform audit tasks only on the basis of the audit permit issued in accordance with this law.

The permit for conducting the audit referred to in paragraph 1 of this article is issued and revoked by the Ministry.

The permit to perform the audit is issued for an indefinite period of time.

The permit from paragraph 1 of this article is issued on the basis of a request.

The permit referred to in paragraph 1 of this article shall be entered in the register of auditing companies.

A company that has not received permission to perform an audit in accordance with this law may not include the title "auditing company" in its name.

Request for the issuance of a permit to perform an audit

Article 17

The request for the issuance of the permit for the audit is submitted to the Ministry.

Along with the request from paragraph 1 of this article, the following is submitted:

- 1) proof of registration in the Central Register of Business Entities;
- 2) decision on the appointment of members of the board of directors, with an explanation;
- 3) notification on classification, issued by the administrative body responsible for statistics;
- 4) proof that at least two founders hold an authorized auditor's license;
- 5) contract on compulsory liability insurance in accordance with Article 19 of this law;
- 6) for audit companies from member states of the European Union, i.e. third countries, the opinion of the competent authority (institute, chamber, association, etc.), which includes:
 - the content of the regulations of that country that regulate the conditions for auditing and checking the quality of auditing,

- a statement from the competent authority that the audit company in a member state of the European Union, i.e. a third country, has the right to perform audit services and whether there are any restrictions in performing the audit,

- the statement of the competent authority that the Ministry will inform about all the measures of checking the quality of work imposed on the audit company of a member state of the European Union, that is, of a third country.

Evidence from paragraph 2 point 1 is obtained by the Ministry ex officio.

The Ministry decides on the request from paragraph 1 of this article by means of a decision.

An appeal can be lodged with the Ministry against the decision of the authorized person.

An appeal against the decision from paragraph 4 of this article does not delay the execution of the decision.

An administrative dispute can be initiated against the decision of the Ministry from paragraph 4 of this article.

More detailed conditions and documentation required for the issuance of a permit to perform an audit are determined by the regulation of the Ministry.

Withdrawal of the license to perform the audit

Article 18

The Ministry will revoke the audit company's license to perform the audit, if:

- 1) it is determined that the data on the basis of which the permit was issued are untrue;
- 2) ceases to fulfill any of the conditions on the basis of which the permit was issued;
- 3) does not comply with the provisions of this law in the audit;
- 4) the audit is carried out on behalf of the company by a person whose license to perform audits has been revoked;
- 5) the audit company does not eliminate irregularities, that is, it does not implement additional measures within the period specified in the control procedure; and
- 6) in other cases prescribed by this law.

Liability Insurance

Article 19

The audit company and the authorized auditor are obliged to conclude a contract on mandatory insurance against liability for damage that their work could cause to the person for whom they are performing an audit.

The authorized auditor is obliged to conclude the contract referred to in paragraph 1 of this article on the day of the start of the audit work.

The insurance amount from paragraph 1 of this article is prescribed by the Ministry.

Additional services

Article 20

An audit company or an authorized auditor can, in addition to audit services, also provide services in the field of finance and accounting, financial analysis and control services, tax and other business consulting, company value assessment services, assets and liabilities, preparation and economic evaluation of investment projects .

An audit company or an authorized auditor may not audit a legal entity to which it provides services from paragraph 1 of this article, for the business year in which it provided those services.

The prohibition from paragraph 2 of this article also applies to the parent and dependent legal entity of the auditing company, i.e. the authorized auditor.

Registration in the register

Article 21

The register of authorized auditors and the register of auditing companies is maintained and updated by the Ministry.

The register is kept in electronic form and published on the website of the Ministry.

The register of authorized auditors in particular contains:

- 1) name, surname and address of the authorized auditor;
- 2) the number and date of the decision on the issuance of a license for auditing;
- 3) number and date of the decision on revoking the license for audit;
- 4) name, registered office and registration number of the audit company where the authorized auditor is employed or otherwise engaged;
- 5) data on the registration of the authorized auditor with the competent authorities of foreign countries (name of the authority and registration number).

The register of auditing companies in particular contains:

- 1) name, headquarters and registration number of the auditing company;
- 2) number and date of the decision on the issuance of the permit for the audit;
- 3) the number and date of the decision on the revocation of the permit to perform the audit;
- 4) the person responsible for the contact and address of the audit company's website;
- 5) name, surname and registration number of authorized auditors, who are employed by the company or otherwise engaged in the company for auditing;
- 6) name, surname and address of the founder of the audit company;
- 7) name, surname and address of the members of the board of directors, that is, the executive director;
- 8) data on the eventual registration of the founder of the company for auditing with competent authorities of foreign countries (name of authority and registration number).

Data change

Article 22

The authorized auditor and the audit company are obliged to inform the Ministry about the change in the data entered in the register of authorized auditors, i.e. the register of audit companies, no later than within seven days from the date of the change.

Data protection

Article 23

An authorized auditor or an audit company is obliged to keep the information and data they learn during the audit confidential.

In the event of a change of authorized auditor or audit company, the authorized auditor or audit company is obliged to provide the new authorized auditor or audit company with access to all information and data related to the entity that is or was the subject of an audit.

The provision of paragraph 1 of this article also applies in the event of the termination of the work of the authorized auditor, that is, the audit company.

Exceptionally from paragraph 1 of this article, an authorized auditor or an audit company that audits an entity that is part of a group of legal entities whose parent legal entity is located in a third country, is obliged to provide the auditor of the group from a third country with access to the information and data necessary for the audit. consolidated financial statements of that parent legal entity.

III. AUDIT REPORTS AND TRANSPARENCY

Audit report

Article 24

The audit report with an opinion on the financial statements of a legal entity is prepared in writing, in accordance with the IAS.

The audit report with an opinion on the financial statements of the legal entity is signed by the authorized auditor in his own name, that is, in the name of the audit company.

If several authorized auditors are involved in the audit procedure, the audit report is signed by all authorized auditors and the person authorized to represent the audit company.

The financial statements that are the subject of the audit are attached to the auditor's report.

The audit report for legal entities, which, in accordance with the Accounting Act, are required to prepare an annual management report on operations, contains an opinion on whether the management report on operations is harmonized with the financial report for the same financial year and whether it was prepared in accordance with the provisions of the Accounting Act.

The provision of paragraph 5 of this article also applies to consolidated management reports on operations.

Prohibition of performing duties

Article 25

The authorized auditor, i.e. the main audit partner, for a period of at least two years after signing the audit report, must not:

- 1) performs managerial duties in the legal entity where he performed the audit;
- 2) be a member of the audit committee of the legal entity where he performed the audit;
- 3) be a member of the management body or supervisory body of the legal entity where he performed the audit.

Employees of an audit company or an authorized auditor who work on audit tasks, as well as a person from Article 7, paragraph 2 of this law, may not perform tasks, nor be members of boards and bodies from paragraph 1 of this article, before the expiration of the period of one year from signing the audit report.

Transparency report

Article 26

The auditing company, that is, the authorized auditor, which audits the legal entities referred to in Article 29 of this law, is obliged to submit a report on transparency to the Auditing Council by

March 31 of the current year for the previous year for publication on the website of the Auditing Council.

The report on transparency from paragraph 1 of this article, in particular, contains:

- 1) the form of the company and the ownership structure of the audit company, that is, the authorized auditor;
- 2) description of the network and its legal and organizational arrangement, if the auditing company belongs to the network;
- 3) description of the management structure of the auditing company;
- 4) description of the company's internal quality control system for auditing and statement of the management body on its effectiveness;
- 5) the date when the last work control was carried out;
- 6) the list of entities from Article 29 of this law, for which the audit company or authorized auditor conducted an audit during the previous financial year;
- 7) statement on the independence of the audit company's work, that is, the authorized auditor, which in particular contains an overview of internal controls that ensure independence;
- 8) statement on the audit company's policy on continuous professional education;
- 9) financial information and data on the total income from auditing and income from additional services, which are not related to the audit;
- 10) parameters for determining the earnings of the main audit partners.

The person authorized to represent the audit company, i.e. the authorized auditor, signs the report on transparency.

Keeping audit documentation

Article 27

The audit company, i.e. the authorized auditors, are obliged to keep the audit documentation for at least six years, starting from the year to which the audit relates.

Obligation to report

Article 28

The audit company, that is, the authorized auditor, is obliged to report to the audit committee of the legal entity on key issues arising from the audit, especially on the work and failures of internal control.

IV. OBLIGATION OF AUDIT AND INTERNAL AUDIT

Mandatory audit

Article 29

Audit is mandatory for:

- 1) subjects of public interest;
- 2) medium legal entities;
- 3) parent legal entities, which together with dependent legal entities fulfill the conditions for classification in the group of medium legal entities;

- 4) parent legal entities, which together with dependent legal entities fulfill the conditions for classification in the group of large legal entities;
- 5) investment companies;
- 6) investment funds;
- 7) investment fund management companies;
- 8) voluntary pension funds;
- 9) voluntary investment fund management companies; and
- 10) other collective investment schemes.

Subjects of public interest, in the sense of paragraph 1 point 1 of this article, are:

- 1) legal entity that issues securities and other financial instruments that are traded on the organized market;
- 2) banks and other financial institutions;
- 3) insurance companies; and
- 4) legal entities classified in the category of large legal entities in accordance with the Law on Accounting.

The classification of legal entities, i.e. groups of legal entities from paragraph 1 of this article, is carried out in accordance with the Law on Accounting.

Audit companies and authorized auditors are obliged to replace the authorized auditor, the signatory of the audit report, or the main partner for the audit, at the latest every seventh year from the beginning of the audit of financial statements at the same legal entity, unless otherwise regulated by a separate law.

In the case referred to in paragraph 4 of this article, the authorized auditor, i.e. the main audit partner, can audit the same legal entity, after the expiration of three years from the date of signing the last audit report for that legal entity.

Audit Committee

Article 30

Legal entities from Article 29 of this law are obliged to appoint an audit committee of at least three members.

The audit committee is appointed by the assembly of the joint-stock company, i.e. the competent authority determined by the company's statute.

At least one member of the audit committee must have knowledge in the field of accounting and auditing and must not be an employee, shareholder or member of the management body in the legal entity referred to in paragraph 1 of this article.

Jurisdiction of the audit committee

Article 31

Audit Committee:

- 1) follows the procedure of financial reporting;
- 2) monitors the effectiveness of the legal entity's internal control and internal audit;
- 3) monitors the legally prescribed audit of annual and consolidated financial statements;

4) monitors the independence of engaged authorized auditors or audit companies, which perform the audit, as well as contracts for the use of additional services in accordance with Article 20 of this law;

5) makes recommendations to the assembly of the joint stock company, that is, to the founders, on the selection of the company for auditing or an authorized auditor;

6) considers plans and annual reports of internal control, as well as other issues related to financial reporting and auditing.

Submitting the audit report

Article 32

Legal entities from Article 29 of this law are required to submit an audit report with the auditor's opinion on financial statements to the administrative body responsible for taxes (hereinafter: Tax Administration), in paper and electronic form, no later than June 30 of the current year for the previous year. business year.

The Tax Administration publishes the audit report with the opinion on the financial statements from paragraph 1 of this article on its website.

Internal auditor

Article 33

A large legal entity is obliged to have an internal auditor.

The internal audit of a large legal entity can be performed by an internal auditor or a special organizational part of the legal entity in charge of internal audit tasks.

A person who performs internal audit work in a large legal entity cannot perform other tasks at that legal entity.

An internal auditor, i.e. a person who manages a special organizational part for internal audit, can be a person who has at least a seventh level (VII) higher education qualification, in the scope of 240 CSPK credits, and a work experience of at least three years in accounting or audit work.

Method of conducting internal audit

Article 34

Internal auditing is performed in accordance with the International Standards for the Professional Practice of Internal Auditing.

The internal audit is organized in a way that ensures the durability of the internal audit, the availability of the audit to all jobs, independence, objectivity and impartiality in the work of the internal auditor and timely reporting on the findings of the internal audit, adequate and organized performance of the internal audit function.

Internal audit plan

Article 35

The internal audit of a large legal entity is carried out on the basis of annual internal audit plans, which are prepared on the basis of risk assessment.

The internal audit plan from paragraph 1 of this article particularly contains:

- 1) goals and tasks of internal audit;
- 2) areas of business in which risks are particularly pronounced;
- 3) business areas that will be subject to audit;

- 4) deadlines for execution of planned internal audit activities;
- 5) dynamics of reporting on internal audit findings.

V. AUDIT COUNCIL

Audit advice

Article 36

Monitoring and improvement of audit practice is carried out by the Audit Council.

Jurisdiction of the Audit Council

Article 37

In carrying out the tasks referred to in Article 36 of this law, the Audit Council:

- 1) considers and takes positions on issues of development and improvement of audit practice in Montenegro;
- 2) monitors the process of application of audit standards;
- 3) gives initiatives for appropriate and timely solutions for the most efficient application of audit standards;
- 4) provides advice to policy makers, regulators and government bodies;
- 5) provides professional assistance to improve the quality of financial reporting;
- 6) publishes on its website reports on the transparency of audit companies, that is, authorized auditors;
- 7) gives an opinion on the annual control plan of audit companies and authorized auditors determined by the Ministry;
- 8) gives an opinion on the program of continuous professional education of authorized auditors;
- 9) gives an opinion on the training program of authorized officials; and
- 10) performs other matters of importance for the implementation and improvement of audit practice in Montenegro.

The council considers and gives opinions on drafts and proposals of laws and other regulations of importance for revision.

The Council submits the opinion from paragraph 2 of this article to the competent ministry that prepared the law or other regulation of importance for revision.

The competent ministry referred to in paragraph 3 of this article is obliged, within 30 days from the date of delivery of the opinion, to inform the Council about its positions taken regarding the opinion of the Council.

If the competent ministry and the Council do not reach an agreement regarding the opinion on a particular regulation, the Council can submit its opinion to the Government.

Work of the Audit Council

Article 38

The work of the Audit Council is public.

The Audit Council publishes its conclusions, recommendations and opinions on its website.

The Audit Council adopts the annual work program and work report, which it submits to the Government.

The Audit Council publishes the annual work program and work report on its website.

The Audit Council adopts the Rules of Procedure, which regulate the Council's organization and way of working.

Administrative and technical tasks for the needs of the Audit Council are performed by the Ministry.

Composition and appointment of the Audit Council

Article 39

The Audit Council has five members who, on the proposal of the Minister of Finance, are appointed and dismissed by the Government.

A person may be appointed as a member of the Audit Council who:

- 1) has at least a seventh level (VII) higher education qualification in the scope of 240 CSPK credits,
- 2) has at least five years of work experience in accounting, auditing, finance or legal affairs,
- 3) has not been convicted of a criminal offense that makes him unfit to perform duties under the Council's jurisdiction.

The majority of members of the Audit Council must be persons who:

- 1) they do not actively participate in the performance of audit work in accordance with the provisions of this law or have not participated in the performance of audit work three years before being appointed to the Audit Council,
- 2) three years before being appointed to the Audit Council, they did not have the right to vote as members of the auditing company,
- 3) they were not members of the administrative or executive body of the audit company for three years prior to appointment,
- 4) three years prior to the appointment, they were not employed by an auditing firm or an authorized auditor, or otherwise associated with them.

Along with the proposal for the appointment of the members of the Audit Council, evidence of the fulfillment of the conditions from para. 2 and 3 of this article.

Members of the Audit Council are appointed for a period of four years with the possibility of re-appointment, a maximum of two times.

Funding of the Council

Article 40

Funds for the work of the Audit Council are provided from the Budget of Montenegro.

Data confidentiality protection

Article 41

The members of the Audit Council are obliged to preserve the confidentiality of the information they learn while performing tasks within the competence of the Audit Council in accordance with the law regulating the confidentiality of data.

The provision of paragraph 1 of this article also applies to members of the Audit Council whose membership in the Council has ceased.

VI. SUPERVISION OF THE WORK OF AUDITING COMPANIES AND AUTHORIZED AUDITORS

Control

Article 42

Supervision over the implementation of this law and regulations adopted on the basis of this law is carried out by the Ministry.

The tasks of inspection supervision referred to in paragraph 1 of this article are performed by an authorized official of the Ministry in accordance with this law and the law regulating inspection supervision.

An authorized official from paragraph 2 of this article can be a person who has at least five years of experience in accounting and auditing.

An authorized official from paragraph 2 of this article is obliged to attend a special training program adopted by the Ministry.

The Ministry submits the training program from paragraph 4 of this article to the Audit Council for its opinion.

Cooperation in the procedure of inspection supervision

Article 43

In the process of inspection supervision, the Ministry cooperates, provides assistance and information and implements other forms of cooperation with competent authorities of other countries.

A closer way of cooperation from paragraph 1 of this article is prescribed by the Ministry.

Subject of control

Article 44

In addition to the obligations and powers established by the law regulating inspection supervision, the authorized official has the obligation and authority to control in particular whether the audit company, i.e. the authorized auditor:

- 1) performs the audit in accordance with this law, the International Auditing Standards and the rules of the auditing profession;
- 2) meets the requirements of independence;
- 3) has the quantity and quality of engaged resources in accordance with audit standards;
- 4) fulfills the conditions for issuing permits for auditing, that is, for obtaining a license;
- 5) respects the ethical requirements prescribed by the Code of Ethics for Professional Accountants; and
- 6) controls the way they calculate fees for audit services.

Control procedure

Article 45

The control referred to in Article 44 of this law is carried out in an objective manner and according to a procedure that excludes a conflict of interest between the authorized official and the audit company, that is, the authorized auditor who is the subject of the control.

An authorized official in the control procedure is obliged to review a sufficient number of audit documents, i.e. samples for testing in order to ensure quality and comprehensive control, applying International Audit Standards and requirements related to the independence of their work.

The Ministry adopts the annual control plan of audit companies, i.e. authorized auditors, and submits it to the Audit Council for its opinion.

Control frequency

Article 46

The control referred to in Article 44 of this law is carried out at least once every three years by an audit company or an authorized auditor that performs audits at entities referred to in Article 29 of this law.

The authorized official is obliged to notify the auditing company, i.e. the authorized auditor, about the control in writing at least 15 days before the start of the control.

Scope of control

Article 47

The audit company, that is, the authorized auditor who is the subject of control, is obliged to enable the authorized official to review the audit report, the documentation on the basis of which the audit report was compiled, and other documentation in accordance with the purpose of the control.

The audit company, i.e. the authorized auditor, is obliged to enable the authorized official to carry out the control at its headquarters, i.e. in its working premises.

Control report

Article 48

The authorized official prepares a report containing especially findings and conclusions and submits it to the company for auditing, i.e. to the authorized auditor who is the subject of control.

The report from paragraph 1 of this article shall also be submitted to the Audit Council.

The Ministry publishes on its website data containing measures imposed due to determined irregularities in accordance with the provisions of this law, including data on the type and nature of determined irregularities and the identity of the person against whom the measure was imposed.

The information from paragraph 3 of this article is published after the expiration of the appeal deadline or the completion of the appeal procedure, if the appeal is rejected.

The Ministry retains the data from paragraph 3 of this article on its website for at least five years from the date of publication.

The Ministry prepares an annual report on the performed controls, which it submits to the Audit Council and publishes on its website.

Taking measures based on control

Article 49

The authorized official, when he determines that the audit company or the authorized auditor does not act in accordance with the provisions of this law and the rules of the auditing profession, proposes the following measures:

1) elimination of established irregularities;

- 2) imposition of additional measures necessary to eliminate irregularities;
- 3) temporary ban on the work of the auditing company, that is, the authorized auditor;
- 4) revocation of the license of the authorized auditor, i.e. the license to perform the audit of the audit company.

The measures from paragraph 1 of this article are implemented by the Ministry.

Elimination of established irregularities

Article 50

An authorized official will order the removal of established irregularities to the auditing company, i.e. to the authorized auditor if:

- 1) the ownership and management structure of the auditing company is not in accordance with this law;
- 2) the auditing company, that is, the authorized auditor performs auditing activities contrary to the provisions of this law;
- 3) the audit company, that is, the authorized auditor does not prepare a report on transparency in accordance with Article 26 of this law and does not submit it to the Audit Council for publication;
- 4) the auditing company, i.e. the authorized auditor, do not meet the conditions for obtaining a permit to perform an audit, i.e. a license.

Solution

Article 51

The decision ordering the elimination of irregularities contains in particular:

- 1) description of established irregularities;
- 2) the deadline in which the audit company, that is, the authorized auditor, is obliged to eliminate irregularities and submit a report on the elimination of irregularities;
- 3) evidence of the elimination of irregularities that the audit company, that is, the authorized auditor, submits to the authorized official.

Additional measures

Article 52

With additional measures, the audit company, i.e. the authorized auditor, is ordered to implement:

- 1) improvement of the internal quality control system in conducting audits;
- 2) improvement of internal supervision over the handling of confidential data;
- 3) other measures in accordance with this law, the International Auditing Standards and the rules of the audit profession.

VII. PENAL PROVISIONS

Article 53

A legal entity will be fined from EUR 500 to EUR 16,500 for a misdemeanor if:

- 1) it did not receive a license to perform an audit, and its name contains the words "auditing company" (Article 16 paragraph 6);

- 2) does not appoint an audit committee of at least three members (Article 30 paragraph 1);
- 3) fails to submit an audit report with an opinion on financial statements to the Tax Administration no later than June 30 of the current year for the previous business year in paper and electronic form (Article 32 paragraph 1);
- 4) does not appoint an internal auditor (Article 33 paragraph 1).

For the misdemeanor from paragraph 1 of this article, the responsible person in the legal entity will be fined in the amount of 250 euros to 2,000 euros.

Article 54

A fine in the amount of EUR 500 to EUR 16,500 will be imposed on an audit company - a legal entity, if:

- 1) performs auditing activities, in which the majority of voting rights are not held by authorized auditors who meet the conditions from Article 10 of this law and/or an auditing company established in Montenegro or in a member state of the European Union (Article 15 paragraph 2 point 1);
- 2) performs audit activities and the majority, i.e. up to three-quarters of the company's management members, are not authorized auditors who meet the requirements of Article 10 of this law and/or audit companies authorized in a member state of the European Union (Article 15 paragraph 2 point 2);
- 3) performs auditing activities and has not received a permit for auditing issued in accordance with this law (Article 16 paragraph 1);
- 4) does not conclude a contract on mandatory insurance against liability for damage that his work could cause to the person for whom they are conducting an audit (Article 19 paragraph 1);
- 5) does not notify the Ministry about the change in the data entered in the register of audit companies within seven days from the date of the change at the latest (Article 22);
- 6) fails to prepare an audit report with an opinion on the financial statements of the legal entity in written form (Article 24 paragraph 1);
- 7) fails to submit a transparency report to the Audit Council by March 31 of the current year for the previous year (Article 26 paragraph 1);
- 8) does not keep audit documentation for at least six years starting from the year to which the audit refers (Article 27).

For the misdemeanor from paragraph 1 of this article, the responsible person in the legal entity - audit company will be fined in the amount of 500 euros to 2,000 euros.

Article 55

A fine in the amount of EUR 250 to EUR 2,000 will be imposed on an authorized auditor - a natural person, if:

- 1) audits the legal entity in which he is a shareholder, member or founder (Article 9 paragraph 1 point 1);
- 2) performs an audit of the legal entity in which he performed accounting duties or provided consulting services for the year for which the audit is performed (Article 9, paragraph 1, point 2);
- 3) does not conclude the contract referred to in Article 19 paragraph 1 of this law on the day of the start of audit work (Article 19 paragraph 2);
- 4) does not notify the Ministry about the change in the data entered in the register of authorized auditors within seven days from the date of the change at the latest (Article 22);

5) fails to prepare an audit report with an opinion on the financial statements of the legal entity in written form (Article 24 paragraph 1);

6) fails to submit a report on transparency to the Audit Council by March 31 of the current year for the previous year (Article 26 paragraph 1);

7) does not keep audit documentation for at least six years starting from the year to which the audit refers (Article 27).

VIII. TRANSITIONAL AND FINAL PROVISIONS

The deadline for the adoption of by-laws

Article 56

By-laws for the implementation of this law will be adopted within six months from the date of entry into force of this law.

Until the adoption of by-laws from paragraph 1 of this article, the by-laws adopted on the basis of the Law on Accounting and Auditing ("Official Gazette of the Republic of Montenegro", No. 69/05 and "Official Gazette of Montenegro", No. 80/08 and 32/11) shall be applied. .

Appointment of the Audit Council

Article 57

The audit council will be appointed within three months from the date of entry into force of this law.

The Accounting and Auditing Council, established in accordance with the Law on Accounting and Auditing ("Official Gazette of the Republic of Montenegro", No. 69/05 and "Official Gazette of Montenegro", No. 80/08 and 32/11) ceases to operate on the day of appointment of the Audit Council.).

Appointment of the audit committee

Article 58

Legal entities that before the entry into force of this law were not obliged to appoint an audit committee are obliged to appoint an audit committee within nine months from the entry into force of this law in accordance with Article 30 of this law.

Validity of permits and licenses

Article 59

Work permits issued to auditing companies and licenses issued to authorized auditors in accordance with the Law on Accounting and Auditing ("Official Gazette of the Republic of Montenegro", No. 69/05 and "Official Gazette of Montenegro", No. 80/08 and 32/11) remain at strength.

Coordination of business

Article 60

The auditing company and the authorized auditor from Article 59 of this law are obliged to harmonize their operations with the provisions of this law within six months from the date of entry into force of this law.

Proceedings have been initiated

Article 61

Procedures for issuing permits, i.e. licenses for conducting audits started before the entry into force of this law, will be completed according to the provisions of this law.

Termination of validity

Article 62

On the day this law enters into force, the provisions of the Law on Accounting and Audit ("Official Gazette of the Republic of Montenegro", No. 69/05 and "Official Gazette of Montenegro", No. 80/08 and 32/11) relating to auditing cease to be valid.

Entry into force

Article 63

This law enters into force on the eighth day from the day of its publication in the "Official Gazette of Montenegro".