FINANCIAL SECTOR ASSESSMENT PROGRAM

MONTENEGRO

TECHNICAL NOTE

CORPORATE SECTOR FINANCIAL REPORTING

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This Technical Note was prepared in the context of a joint World Bank-IMF Financial Sector Assessment Program mission in Montenegro during September 2015 led by Alexander Pankov, World Bank and Peter Lohmus, IMF, and overseen by the Finance and Markets Global Practice, World Bank and the Monetary and Capital Markets Department, IMF. The note contains technical analysis and detailed information underpinning the FSAP assessment's findings and recommendations. Further information on the FSAP program can be found at www.worldbank.org/fsap.

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GLOSSARY

A&A	Accounting and Auditing
AAARS	Association of Accountants and Auditors of Republic Srpska
CAA	Council for Accounting and Audit
CFRR	Centre for Financial Reporting Reform
CSAP	Country Strategy and Action Plan
CPD	Continuing Professional Development
EU	European Union
FEE	Fédération des Experts Comptables Européens
IASB	International Accounting Standards Board
IAASB	International Auditing and Assurance Standards Board
IAESB	International Accounting Education Standards Board
IAS	International Accounting Standards (included in IFRS)
IAMM	Institute of Accountants and Auditors of Montenegro
ICAM	Institute of Certified Accountants and Auditors of Montenegro
IDF	International Development Fund
IES	International Education Standard
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
ISQC	International Standards on Quality Control
MoF	Ministry of Finance
PAO	Professional Accounting Organization
PIE	Public Interest Entity
QA	Quality Assurance
QAR	Quality Assurance Review
ROSC	Reports on the Observance and Standards of Codes
SME	Small and Medium Sized Entity
SAAA	Serbian Association of Accountants and Auditors

CORPORATE SECTOR FINANCIAL REPORTING IN MONTENEGRO: STATUS AND RECENT ACHIEVEMENTS[1]

EXECUTIVE SUMMARY

Key Findings

1. **Montenegro has undertaken notable efforts to improve the corporate financial reporting framework since the 2007 Accounting and Auditing Report on the Observance of Standards and Codes (A&A ROSC), but further challenges remain pertaining to the application and enforcement of financial reporting**. Progress was made especially in improving the statutory framework and efforts to align it with the EU *acquis communautaire*. However, implementation and enforcement of financial reporting and auditing requirements has been hampered by major capacity and resource constraints. The major consequences are that, with exception of banks and insurance companies, there is limited quality financial information on corporate entities available in the market that is reliable for economic decision making or supervision of financial sector entities. The capacity and skills of the accounting and auditing profession in Montenegro needs further development while the institutions responsible for accounting and auditing regulation, in some cases, are at inception.

2. **Improving the quality of financial reporting requires further improvements in the legal framework and institutional capacity.** The ongoing modernization of the legal framework should include a formal legal definition of public interest entities (PIEs). Only companies with substantial public interest (listed companies, banks and insurance companies) should have more extensive reporting obligations, and face greater requirements, including the need for an annual financial statement audit and requirement to prepare and file quarterly financial statements. The ongoing legal framework modernization should also urgently address the establishment of a public oversight system (POS) and a mandatory system of quality assurance review (QAR) over the statutory audit function. POS and QAR enhance the public confidence in the quality of the audit function, are the first line of confirming proper application of accounting standards and require the audit profession to improve the quality of conducted audits.

3. **The application of full IFRS requirements for all legal entities presents a particular challenge to SMEs and Montenegro should consider further differentiating the financial reporting requirements for various entities depending on their level of public interest and economic significance.** The current scope of application of IFRS is too large relative to the existing capacity to properly apply IFRS. Given the capacity constraints both in the SME sector and the audit profession, the authorities should consider introducing simplified financial reporting standards for smaller entities. A potential solution would be

[1] This Technical Note has been prepared by Kalina Sukarova (Senior Financial Management Specialist, Center for Financial Reporting Reform, World Bank) in the context of a joint World Bank-IMF Financial Sector Assessment Program mission in Montenegro during September 2015World Bank.

the adoption of the IFRS for SMEs for medium sized entities and developing even more simplified reporting guidelines for small entities.

4. **Requirements to file financial statements and audit reports and make them public are in place, but in practice many companies fail to timely adhere to their filing obligations and published information is not complete.** This has implications over the transparency of public availability of reliable financial information which can be used for economic decision making or supervision of financial sector entities. Also, the tax authorities should be equipped with adequate resources and tools to effectively oversee and enforce the timely publication of financial statements and quality controls to promote the completeness and accuracy of reported financial information.

5. **The capacity of the financial regulators to monitor financial reporting and auditing is developing.** Financial and capital market regulators have sufficient powers to enforce financial reporting and auditing standards. The capacity of the Central Bank to monitor financial reporting and auditing requirements of banks has increased in recent years and dedicated staff with IFRS expertise is available to supervision teams. The Insurance Supervision Agency is a newer institution formed since the 2007 A&A ROSC and needs more time and resources to build sustainable institutional capacity for monitoring and enforcement of financial reporting and auditing requirements. With no IFRS specialists, the supervisory activities of the SEC focus on the timeliness and completeness of financial statements rather than monitoring the substantial application of IFRS principles. Auditors of listed companies are not subject to rotation rules, however the SEC has the authority, in certain circumstances to request appointment of another statutory auditor to re-audit the financial statements.

6. **The Government of Montenegro is committed to reform its corporate financial reporting infrastructure and the World Bank Centre for Financial reporting reforms (CFRR) is supporting these efforts.** The REPARIS program (2008-2014) and successor EU REPARIS program (2015-2018) include a regional dimension that has a significant part on knowledge sharing (including series of knowledge-sharing activities related to financial reporting by financial sector entities), complemented by national activities to support in-country financial reporting reform. In addition an ongoing International Development Fund (IDF) Grant: “Capacity Building for Effective Audit Oversight” - is being implemented in Montenegro since 2013 with a contribution of USD 0,5 million. The ongoing IDF Grant (closing date August 2016), covers a range of technical assistance activities in the following areas: (i) assisting Montenegro to establish a system for public oversight and quality assurance for its statutory audit function; and (ii) build institutional capacity to provide training and maintain the competence of accounting and audit professionals to implement international standards of accounting, auditing and ethics.

Recommendations

Recommendations and Authority Responsible for Implementation	Time*
Statutory framework	
Introduce PIE definition that incudes entities with substantial public interest (listed companies, banks and insurance companies) (MoF)	I
Differentiating the financial reporting requirements for various entities depending on their economic significance (e.g. adoption of IFRS for SME for medium sized entities and developing even more simplified reporting guidelines for small entities) (MoF)	NT
Publication of financial statements	
Improve publication of financial statements by addressing: (i) the limitations of the electronic filing system and (ii) by enhancing the capacity of the tax authorities to monitor compliance with IFRS reporting requirements (Tax Authorities)	NT
Monitoring and enforcement	
Introduce a mandatory system of external quality assurance over statutory auditors (MoF / ICAM)	I
Introduce public oversight over statutory auditors (MoF)	I
Develop tools, methodologies and build capacity for PIE quality inspections (MoF)	NT
Continue to develop and retain staff with IFRS knowledge within financial and capital market regulators (Central Bank, Insurance Supervision Agency, SEC)	NT
Profession	
Continue to upgrade profession skills and capacity to implement IFRS and ISA (ICAM)	I
Modernize accountancy curricula in universities and professional bodies and enhance the quality of the CPD system	I

* I-Immediate" is within one year; "NT-near-term" is 1–3 years; "MT-medium-term" is 3–5 years

Introduction

7. **This note is prepared as part of the FSAP. Its main objective is to describe the status and recent developments in corporate financial reporting framework in Montenegro and highlight key issues relevant to financial sector.** The note represents a technical annex to the main FSAP Aide-Memoire and seeks to provide a high level overview of developments since the 2007 A&A ROSC[2], as well as highlight the areas that are most relevant to the financial sector. The Annex 1 to this note offers details on status of implementation of 2007 A&A ROSC policy recommendations and was based on the team's knowledge of corporate financial reporting reforms in Montenegro and limited research.

8. **Montenegro has undertaken notable efforts to improve the corporate financial reporting framework since the 2007 A&A ROSC, especially in improving the statutory framework and efforts to align it with the EU acquis communautaire.** However, implementation and enforcement of financial reporting and auditing requirements has been hampered by major capacity and resource constraints. The major consequences are that, with exception of banks and insurance companies, there is limited quality financial information on corporate entities available in the market that is reliable for economic decision making or supervision of financial sector entities. The capacity and skills of the accounting and auditing profession in Montenegro needs further development while the institutions responsible for accounting and auditing regulation, in some cases, are at inception. *acquis communautaire*

Financial reporting & audit reform since 2007 A&A ROSC

Overview of the statutory framework

9. **The statutory framework for corporate financial reporting in Montenegro is mainly defined by the 2005 Law on Accounting and Auditing[3] which has been amended twice since the 2007 A&A ROSC – once in 2008[4] and another time during 2011[5].** Among the many, more substantial changes introduced by the amendments include: (i) introducing the criteria for classification of legal entities into small, medium and large category; (ii) reference to the "cash based accounting" rule was abandoned[6]; (iii) the requirement for a parent company to prepare consolidated financial statements was introduced (iv) the Council for Accounting and Auditing (CAA) was formed; and (v) sanctions and penalties for noncompliance were expanded. These recent developments of

[2] http://www.worldbank.org/ifa/rosc_aa_monte_eng.pdf
[3] Official Gazette No. 69/05 (18 November 2005).
[4] Official Gazette No. 80/08 (26 December 2008).
[5] Official Gazette No. 32/11 (1 July 2011).
[6] This rule stipulated that companies with total annual revenue of less than 500.000 Euros could maintain accounts according to the cash basis, which contradicts the fundamental IFRS accrual recognition principle.

the statutory framework in accounting and auditing were guided by the 2007 A&A ROSC and the requirements of the EU *acquis communautaire*[7].

Accounting and financial reporting

10. **Montenegro's legal framework differentiates between requirements applicable to listed companies and financial institutions and those for smaller companies but there is no formal legal definition of public interest entities (PIEs).** Companies with substantial public interest (such as listed companies, banks and insurance companies) should have more extensive reporting obligations, and face greater requirements, including the need for an annual financial statement audit and requirement to prepare and file quarterly financial statements. But the lack of a legal definition for PIEs is a shortcoming, since many of the requirements under the new EU Audit Directive[8] and Regulation[9] apply to PIEs exclusively. Without a clear definition, these requirements might become ambiguous. The new Audit Directive and Regulation come into effect only in June 2016 and there is sufficient time to harmonize, however as Montenegro is now in a process of amending its auditing legislation, introducing a PIE definition should be considered.

11. **The existing definitions of small, medium, and large companies in Montenegro are above the mandatory size thresholds for SMEs set out in the new 2013 EU Accounting Directive.** The new 2013 EU Accounting Directive has raised the thresholds for classifying entities into categories and has removed the option for Member States to adjust thresholds according to the size and nature of their national economy[10]. With ongoing amendments to the accounting legislation, Montenegro will be harmonizing with the directive requirements and the category of micro enterprise is being introduced. More information on the amendments to the accounting and auditing legislation can be found in Box 2. At present, some reporting and filing simplification are allowed for non-listed small companies, including exemption to prepare certain financial reports[11] and from statutory audits.

12. **All legal entities, including micro, small and medium, (approximately 23,500 entities) in Montenegro need to use International Financial Reporting Standards (IFRS) for the preparation of their annual financial statements.** The IFRS financial reporting framework has been developed for general purpose financial statements of listed

[7] The old Accounting Directives (78/660/EC and 83/349/EC) as well as the requirements of the Statutory Audit Directive (2006/43/EC).
[8] Audit Directives 2014/56/EU, 2008/30/EC and 2006/43/EU
[9] Regulation 537/2014.
[10] A legal entity in Montenegro is classified as a *Medium* company provided two of the three criteria are met: (i) Average employees are between 50-250 *(2013 EU Accounting Directive: 50-250)*; (ii) Annual total revenue is between 10.000.000 Euros and 50.000.000 Euros *(2013 EU Accounting Directive: 8.000.000 Euros and 40.000.000 Euros);* and (iii) Total assets range between 10.000.000 Euros and 43.000.000 Euros *(2013 EU Accounting Directive 4.000.000 Euros and 20.000.000 Euros).*
[11] Small companies are required to prepare and file with the Tax Directorate only abbreviated financial statements consisting of a balance sheet and income statement, as well as a requirement to file a statistical annex.

companies and contains some complex accounting treatments and detailed disclosure requirements. In general, the cost of application of IFRS does not outweigh the benefits for SME companies in particular when they are manager-owned. In addition, the current scope of application of IFRS is too large relative to the existing capacity to properly apply IFRS. Considering the cost-benefit aspect as well as the lack of existing capacity to properly apply IFRS, Montenegro should consider further differentiating the financial reporting requirements for various entities depending on their economic significance and should consider making full use of the exemption possibilities for preparation and disclosure of financial statements for SMEs under the acquis. A potential solution, followed also by many other countries of the Western Balkans, would be the adoption of the IFRS for SMEs[12] for medium sized entitles and developing even more simplified reporting guidelines for small entities.

13. **Although the IFRS translation process has improved, further enhancement is needed to allow more up to date IFRS editions to be available as well achieve a wide availability of translated standards.** The Institute of Certified Accountants of Montenegro (ICAM), by Decree of the Government of Montenegro[13] in 2007 became leader of a Consortium[14] recognized to fulfil a range of regulatory tasks in the field of accounting and auditing, including the adopting, translating and publishing of International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS)[15], International Standards on Auditing (ISA)[16] and the IESBA Code of Ethics[17]. For the purpose of establishing a sustainable arrangement, ICAM has entered into a formal agreement with the Serbian Association of Accountants and Auditors (SAAA) and the Association of Accountants and Auditors of Republika Srpska (AAARS) for a common translation of IASB and IAASB pronouncements as well as IESBA literature. Currently, the translated (Serbian)[18] version is available of 2009 effective IASs and IFRS 10, 11, 12 and 13 which can be purchased upon demand from ICAM. IFRS 7 “Financial Instruments – Disclosures” is not available however there is possibility to refer to public Serbian translations available on the Ministry of Serbia website. Based on information received from ICAM, during 2014, few copies of the translated IAS and IFRS have been demanded for purchase. Also, ICAM is not in a position to widely publish (via its website) or make available via other means (publish in the country Official Gazette) the translated standards to its members because the

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[12] The IFRS for SMEs are issued by the IASB and are a self-contained standard designed to meet the reporting needs of smaller companies which is a simpler and less complex version compared to the full IFRS (e.g. some topics not relevant for SME such as earnings per share are not included, fewer disclosures are required, measurement basis in some cases is simplified and revisions to the standard are expected to be limited to once in every three years to relieve the translation efforts).

[13] Government Decree for Delegating Tasks in the Field of Accounting and Auditing – Official Gazette 44/07 (23 July 2007) and Official Gazette 33/10 (14 June 2010).

[14] The Consortium comprises the Institute of Certified Accountants of Montenegro (ICAM) as the leader and includes the Economic Faculty of Montenegro and the Association of Accountants and Auditors of Serbia (AAAS) as fellow members.

[15] Both IFRS and IAS issued by the International Accounting Standards Board (IASB).

[16] ISA are issued by the International Audit and Assurance Standards Board (IAASB).

[17] Issued by the International Ethics Standards Board for Accountants (IESBA).

[18] Serbian language is commonly understood in Montenegro.

copy right for the translations belongs to SAAA, however efforts are made to introduce developments and updates of standards thorough ICAM publications and education events.

14. **The government has engaged in a process of amending its accounting legislation expected to significantly reshape and modernize the accounting legal framework in Montenegro.** The new Draft Law on Accounting, currently under development is expected to harmonize many requirements with the new 2013 EU Accounting Directive[19], such as harmonizing the company thresholds and introducing the micro enterprise category[20]; introducing the classification criteria for small, medium and large groups per the EU requirements and providing some simplification mechanisms for small and micro enterprises. All listed as well as large and medium sized non-listed companies will be obliged to prepare an annual management report containing a corporate governance statement and further reporting obligations for large companies and companies operating in extractive industry or the logging of primary forests have been introduced related to disclosure of government payments received. Still the requirement for all companies - irrespective of size and economic significance - to prepare financial statements according to IFRS remains and the full potential to simplify reporting for SMEs under the acquis is not fully utilized.

15. **Banks and Insurance companies have to apply IFRS in their general purpose financial reporting.** The Central Bank of Montenegro and the Insurance Supervision Agency are empowered by law to impose additional reporting requirements; in practice this has implications on regulatory reporting. In addition to annual financial statements, banks and insurance companies are obliged to prepare and file with the Central Bank and the Insurance Supervision Agency quarterly financial statements[21].

[19] Directive 2013/34/EU.

[20] Micro enterprise category includes companies that fulfil at least two of the following criteria: average employees do not exceed 10, total annual revenues do not exceed 700.000 Euros and total assets are not more than 350.000 Euros.

[21] Article 6b-4 of the Law on Accounting and Audit.

Audit

16. **The scope of the statutory audit requirement covers what can be described as public interest entities.**[22] At present, medium sized companies established as limited liability companies are exempt from the statutory audit obligation which requirement is lesser that the requirements of the new EU 2013 Accounting Directive.

Box 1: Who is required to have an audit in the EU?

According to the new 2013 EU Accounting Directive (2013/34), an independent audit of annual financial statements is required for all PIEs, large enterprises, and medium-sized enterprises established as limited liability legal entities. These categories are defined according to three criteria with numeric thresholds set in the directive (member states are given then option to raise two of the thresholds to differentiate between medium and small enterprises).

Small companies (including micro entities) are not required to undergo audit per the directive. But, under the principle of subsidiarity, member states can require (or continue to require) a financial statement audit from them.

17. **The requirements to have financial statements audited in accordance with International Standards of Auditing (ISA) as well as the requirement to use the IESBA Code of Ethics have been adopted without modification through the 2005 Law on Accounting and Audit.** As previously discussed, ICAM in 2007 became leader of a Consortium recognized to fulfil a range of regulatory tasks in the field of accounting and auditing, including the adopting, translating and publishing of ISA and the IESBA Code of Ethics and a formal agreement was formed with SAAA and AAARS to use common translation of IAASB pronouncements and IESBA literature. Currently in Montenegro, translated (Serbian) version of 2013 ISAs and the 2013 IESBA Code of Ethics are available to be purchased upon demand from ICAM. The electronic version of the translations is not available due to copy right restrictions currently owned by SAAA. The translation process needs to be enhanced to ensure timely updates be available and these to be widely released and published.

18. **At present there is no system of public oversight over the statutory audit function which is not in line with the EU acquis communautaire and best international practice.** Initial steps are being taken, including a process of amending the auditing legislation, with aim to create a public oversight system aligned with the acquis. In addition to the legislation reform, tools and methodologies for quality inspections prepared with external technical assistance provided through an ongoing International Development Fund (IDF) Grant are

[22] The requirement for statutory audit as defined in the 2005 Law on Accounting and Auditing extends to: all joint stock companies, large entities and groups which on consolidated basis meet the thresholds applicable for large entities, banks and other financial institutions, insurance companies, the Central Depository Agency, authorized members and participants of the stock exchange, investment funds and other collective investment schemes.

expected in the near future, but it will take additional time and effort before these tools and methodologies become fully operational. Combined with adequate institutional set-up and funding sources for public oversight system, these actions may, in the longer term, produce the desired effect on improving the audit quality.

19. **The Council for Accounting and Audit (CAA) was introduced with amendments to the 2005 Law on Accounting and Audit, however since 2011 the Council has been dormant.** The main contribution of the Council for Accounting and Audit (CAA) since its establishment in 2008, was the development of the Country Strategy and Action Plan (CSAP) for improvements in the quality of financial reporting, prepared with the assistance of the World Bank, and endorsed by the MoF in 2009. The CSAP contained a comprehensive program of activities designed to implement the recommendations of the 2007 A&A ROSC. CAA was designed as a consultative body, with no legal entity status or executive staff and had no reliable funding source. Its main responsibilities as defined in the law include providing opinions to regulatory and government bodies on draft laws and other relevant regulations from the accounting and auditing field, as well as providing suggestions and opinions regarding matters concerning enhancement and development of the accounting and auditing landscape in Montenegro. The CAA is composed on seven (7) members appointed by the Government[23] with a term of five (5) years and with possibility of re-election[24]. There are ongoing efforts to reform the CAA through the ongoing auditing legislation development mainly with introducing expanded scope of activities to the Council.

20. **Large entities face additional requirements pertaining to audit, including the need to form an audit committee and to have internal auditor, however at present there is no requirement to rotate the sworn auditor for listed entities.** In case of banks, the statutory auditor needs to rotate every three years[25] and the auditors of insurance companies are required to rotate after four years[26]. The Central Bank, Insurance Supervision Agency and the Security Exchange Commission have the right to request change of the external auditor of a bank, insurance company or listed company and in certain cases prior approval of the nominated auditor is also required. Statutory auditors of banks and insurance companies are not permitted to perform tax or consulting work for an audit client. Large companies and banks are required to form an audit committee, with responsibility that includes proposing an independent auditor and monitoring the financial reporting, internal control and audit process in the entity.[27] Audit committees are elected by the General Assembly of Shareholders and include a minimum of three members. At least one member

[23] Government Decision on Forming the Council or Accounting and Audit - Official Gazette of Montenegro No. 32/09, 22/10, 05/11 and 14/11.

[24] Three (3) members from the Ministry of Finance (the President, Secretary and one Member) and one member each from the Ministry of Economy, the Central Bank of Montenegro, the Security Exchange Commission, Commercial Court and Institute of Certified Accountants of Montenegro.

[25] Article 95-5 of the Law on Banks.

[26] Article 168 of the Law on Insurance.

[27] Articles 16e – 16g of the Law on Accounting and Auditing governs audit committees for large companies and Article 39 of the Law on Banks regulates audit committees of banks.

of the audit committee must be an expert from the accounting and auditing field, however the law is silent on the requirement concerning independence of the audit committee members for large companies. The auditor is required to report to the audit committee significant audit matters and observed deficiencies in internal control.

21. **A new Draft Law on Auditing is being developed for the purpose of harmonizing with the requirements of the Audit Directives[28].** The most significant changes introduced relate to the effort to establish a public oversight system aligned with the acquis by: (i) forming an Audit Council which is intended to replace the dormant Council for Accounting and Auditing (CAA) and which includes an expanded scope of activities as compared to CAA and (ii) introduce a system of quality inspection over the statutory audit function by establishing a separate inspection unit within the MoF. Other proposed changes include: (i) aligning the scope of statutory audit[29] to the EU requirements with the exception of statutory audit requirement for medium groups and deferred application of the audit requirement for medium enterprises until joining the EU (ii) extending the requirements regarding audit committees (all companies within the scope of statutory audit requirement need to have audit committees, and also introducing a requirement for independence of members), (iii) introducing the requirement for mandatory CPD, and (iv) introducing requirement for audit companies to file annual transparency reports.

[28] Directive 2006/43/EC and Directive 2014/56/EC.

[29] The requirement for statutory audit with the proposed amendments extends to: all joint stock companies, large and medium entities and large groups, banks and other financial institutions, insurance companies, clearing and depository companies, stock exchanges, investment companies, investment funds and investment management companies, voluntary pension funds and companies for management voluntary pension funds and other collective investment schemes. The audit requirement for medium entities and groups is deferred until Montenegro joins the EU.

Box 2: Draft Laws on Accounting and Auditing

The government has engaged in a process of developing a Draft Law on Accounting and Draft Law on Auditing for the purpose of harmonizing existing requirements with the new EU 2013 Accounting Directive (2013/34/EU) and the requirements of the Audit Directives (2006/43/EC and 2014/56/EU). These Laws are expected to replace the 2005 Law on Accounting and Auditing and to significantly reshape and modernize the accounting legal framework in Montenegro.

Some of the changes introduced with the Draft Law on Accounting include: (i) harmonizing the company thresholds as per the EU requirements (i.e. thresholds harmonized to match the ones in the directive and the category of micro enterprise is introduced), (ii) introducing the group size categories (small, medium and large groups) and the deciding thresholds, (iii) introducing the requirement to prepare and file an annual management report including a corporate governance statement (applicable for all listed and non-listed large and medium companies); (iv) introducing requirement for a large company and listed company active in extractive industry or the logging of primary forests to prepare and make public a report on payments made to the Government (iv) reducing administrative burden with respect of financial reporting for small companies (micro and small enterprises are required to file abbreviated financial statements including balance sheet, income statement and statistical annex and are exempt from preparing and filing annual management report).

The most significant changes introduced with the Draft Law on Auditing include the effort to establish a public oversight system aligned with the *acquis* by: (i) forming an Audit Council which is intended to replace the current Council for Accounting and Auditing (CAA) with expanded scope of activities (ii) introduce a system of quality inspection over the statutory audit function. Some of the other changes introduced include: (i) aligning the scope of statutory audit with the EU requirements (with the exception of requirement for medium groups to undergo statutory audits and deferring the audit requirement for medium companies until Montenegro joins the EU); (ii) extending the requirements regarding audit committees (all companies within the scope of statutory audit requirement need to have audit committees, and also introducing a requirement for independence of audit committee members), (iii) introducing the requirement for mandatory CPD for auditors, and (iv) prescribing requirement for audit companies to prepare and file an annual transparency report.

The draft laws are currently awaiting opinion from the Ministry of Exterior for their alignment with the EU Directives. After approval by the Cabinet of Ministers the law will be submitted to the parliament and will undergo readings before being passed. The final requirements may be different from those described above as the Draft Law is still open for changes and comments.

Publication

22. **The Tax Directorate is charged with ensuring that financial statements are publicly available.** All companies (including listed companies and financial institutions) are obliged to file with the Tax Directorate their general purpose annual or consolidated financial statements prepared according to IFRS (no later than 31 March[30]) while companies subject to statutory audit also file their auditor reports (no later than 30 June[31]). The filing can be either in paper and electronic format and small companies are allowed to file only their balance sheet, income statement and statistical annex. Upon receipt of the financial statements, the Tax Directorate performs arithmetic checks on the financial statements mainly consisting of numerical accuracy and cross reference checks. In addition to these checks, a dedicated department within the Central Bank responsible for compiling statistical information for the purpose of enabling analysis of the business development in the country and on the basis of a memorandum of understanding receives the financial statements from the Tax Directorate and performs additional logical and arithmetical checks. The balance sheet and income statement (for all companies who filed financial statements) are made public, without charge, via the Tax Directorate web page.

23. **Listed companies and financial institutions have additional publication requirements.** Listed companies, banks and insurance companies are also obliged to file their audited general purpose annual or consolidated financial statements and their quarterly financial statements with the Security and Exchange Commission, Central Bank and Insurance Supervision Agency, who publish these on their websites. The Law on Insurance requires that insurance companies publish a summary of the audit opinion in at least one widely circulated form of print media within 30 days of the Board approval of the financial statements.

24. **The requirements to make file financial statements and audit reports public are in place, but in practice many companies fail to timely adhere to their filing obligations. In addition, the electronic filing system has some limitations as it does not allow the upload of audit opinions, notes to financial statements and there is at preset no functionality available to upload consolidated financial statements.** Based on information sourced from the Security Exchange website[32], as of April 2015, only 15% (or 26 companies from total 168) have their annual financial statements for 2015 filed in a timely manner while as of July 2015, just 7% of companies have filed their statutory audit report. Based on information obtained from the Tax Directorate, only 8,5% of companies required to file consolidated financial statements and 38,7% of companies required to file audit reports for 2014 have done so. This has implications over the transparency and public

[30] Articles 6, 6a and 6b of the Law on Accounting and Audit.

[31] Article 12 of the Law on Accounting and Audit requires all companies subject to statutory audit to file their audit opinion with the Tax Directorate. In addition, the Law on Securities (Article 84) requires listed companies to file the audit opinion with the Securities and Exchange Commission by 30 April while the Law on Banks (Article 100) requires that banks file the audit opinion with the Central Bank 150 days after the year end or in case of opinion on consolidated financial statements, 180 days after the year end.

[32] http://www.scmn.me/

availability of reliable financial information for companies, except for banks and insurance undertakings which have further publication requirements defined by the Law on Banks and Law on Insurance.

Monitoring and enforcement of accounting and auditing standards

25. **At present there is no mandatory system of Quality Assurance Review (QAR) over the external audit function in Montenegro.** QAR enhances the public confidence in the quality of the audit function and requires the audit profession to improve the quality of conducted audits. ICAM maintains a soft (voluntary) system of QAR for its members which is in inception phase of implementation. There are two phases envisaged: the first being a membership quality assurance survey designed to identify areas of weaknesses in quality control and audit practices of audit firms, and the second phase should include on field investigations and actual QARs. So far, ICAM has completed the first phase and collected feedback from approximately 40% of the practicing auditors[33]. Based on the survey responses, only four (4) audit companies have declared to have a documented process of conducted quality review at the level of audit firm and the engagement level consistent with the International Standard of Quality Control 1 (ISQC 1). The absence of a QAR system is a key weakness as statutory audit is the first line of confirming proper application of accounting standards. Establishing a requirement for mandatory system for QAR in line with the EU acquis is urgently needed.

26. **There is no system of public oversight over the statutory audit function.** Initial steps towards building a system of public oversight over the statutory audit function have been taken which include a process of amending the auditing legislation. The Draft Law on Auditing introduces the following changes: (i) forming an Audit Council which is intended to replace the dormant CAA and includes an expanded scope of activities and (ii) introduce a system of quality inspection over the statutory audit by establishing a quality assurance inspection unit within the MoF. In addition to the legislation reform, tools and methodologies for quality inspections prepared with external technical assistance provided through an ongoing IDF Grant are expected in the near future.

27. **The Central Bank of Montenegro and the Insurance Supervision Agency have sufficient powers to enforce financial reporting and have sufficient powers and mechanisms to approve or reject external auditors.** The Central Bank supervision process follows a risk based approach consisting of both off-site monitoring and on-site inspections. Both supervision methods are interlinked, responsible divisions cooperate closely and use risk assessment as the basis for planning and application of supervisory methods. The Central Bank and the Insurance Supervisory Agency both, are required by Law on Banks and the Law on Insurance to collaborate closely with the Authority overseeing the auditors and to exchange information on the quality of audits. Both have authority to approve the statutory auditor of a bank or insurance undertaking and to request appointment of another statutory auditor to re-audit the financial statements provided there

[33] Ten (10) audit companies provided responses from twenty seven (27).

are noted irregularities during an onsite inspection, however in practice this right has not been exercised by the Insurance Supervisory Agency, while the Central Bank has requested a re-audit only once.

28. **The Insurance Supervision Agency is a newer institution formed since the 2007 A&A ROSC[34] and its capacity to monitor compliance is yet developing.** Enforcement is mainly limited to the regulatory field of prudential reporting. In addition to financial resources, it takes time to build sustainable institutional capacity for monitoring and enforcement of financial reporting and auditing requirements. There are 15 staff monitoring compliance with financial reporting requirements (via both off site monitoring and through field inspections), although their main focus is on reviewing quarterly prudential reports. The Insurance Supervision Agency needs to develop and retain qualified staff with adequate financial reporting and auditing skills and experience and enhance its institutional capacity for enforcing financial reporting, auditing and related corporate governance requirements (such as for example existence and function of audit committees) by regulated entities.

29. **The Securities and Exchange Commission (SEC) is in charge of regulating and overseeing the issuing and trading of securities, and in practice has limited monitoring and enforcement role of financial reporting requirements, particularly for listed companies.** With no IFRS specialists, the supervisory activities of the SEC focus on the timeliness and completeness of financial statements rather than substantial application of IFRS principles. Listed companies are required to file audited financial statements (both with the Tax Directorate and the SEC) as well as unaudited quarterly financial statements (with the SEC only). Auditors of listed companies are not subject to rotation rules, however the SEC has the authority, in certain circumstances to request appointment of another statutory auditor to re-audit the financial statements. The Law on Securities assigns no responsibility to the SEC to review the qualifications of auditors of listed companies, however SEC does maintain an informal list of acceptable audit companies.

Accounting and auditing profession

30. **The turmoil among the professional bodies of accountants and auditors was overcome by delegating regulatory powers to the Institute of Certified Accountants in Montenegro (ICAM), however the accounting profession in Montenegro remains fragmented; members are scattered among the two existing professional bodies (ICAM and IAAM) and there is no cooperation among these professional associations of accountants.** ICAM[35], by Decree of the Government of Montenegro[36] in 2007 became leader of a Consortium[37] recognized to fulfil a range of regulatory tasks in the field of

[34] Prior to forming the Insurance Supervision Agency the Ministry of Finance carried out the task of insurance supervisor with a staff of three.

[35] http://www.isrcg.org

[36] Government Decree for Delegating Tasks in the Field of Accounting and Auditing – Official Gazette 44/07 (23 July 2007) and Official Gazette 33/10 (14 June 2010).

[37] The Consortium comprises the Institute of Certified Accountants of Montenegro (ICAM) as the leader and includes the Economic Faculty of Montenegro and the Association of Accountants and Auditors of Serbia (AAAS) as fellow members.

accounting and auditing, including: (i) adopting, translating and publishing IFRS, ISA and the Code of Ethics including all updates, (ii) organizing and conducting professional certification, education and examination (iii) monitoring and quality control; (iv) maintaining registers of certified accountants, (vi) conducting professional education according to International Education Standards, (vii) providing advice and issuing opinions regarding application of accounting standards and (viii) other publication obligations (e.g. patters of financial statements, instructions, etc.). On the other hand, the Institute of Accountants and Auditors of Montenegro (IAAM)[38] remains to function as voluntary professional organization, without any regulatory powers, offering training and certification in the field of accounting and management.

31. **While the quality of the profession has developed in recent years, it still needs significant upgrading of skills to effectively apply IFRS and ISA.** Positive efforts have been undertaken to upgrade the profession – both ICAM and IAAM became associate members of the International Federation of Accountants (IFAC). Also, since 2013, ICAM has become an associate member with the Federation of European Accountants (FEE). Considering that ICAM is quite constrained financially, and not withstanding its success to date in putting in place some essential human and organizational structures, it is currently receiving technical assistance under an ongoing IDF Grant to move towards full membership in these international bodies of accountants which often provides the discipline and structure to help local professional bodies adhere to minimum standards and help them improve.

32. **Through the technical assistance, efforts are being undertaken to modernize accountancy curricula in universities and professional bodies and enhance the quality of the CPD system.** Further efforts are needed to upgrade skills of accounting and auditing lecturers and processes that would enable reliable examination of university students or candidates to enter the profession; this includes the accountancy curricula, teaching and examination processes, and other elements that ensure developing adequate competences for professionals. The skills upgrading is also needed for professional that are already on the market to address the immediate need for adequate quality of the work by the profession, including practicing accountants, external accounting services providers and auditors. Although the 2005 Law on Accounting and Auditing does not mandate from certified auditors to undertake certain amount of training hours annually through a program of Continual Professional Development (CPD) in order to be eligible to maintain their certification, positive steps have been taken by ICAM in 2010, when a CPD program for all its members was introduced, requiring 40 annual CPD credits/hours. Members are required to report annually to ICAM on CPD hours obtained in order to renew their accounting certification, but other than verifying the total hours, ICAM does not check the quality of the courses taken. The new Draft Law on Auditing (still under development) does introduce a requirement for mandatory CPD for certified auditors based on a program of professional training approved by the Ministry of Finance.

[38] http://www.irrcg.co.me

33. **Since 2007, the number of certified auditors has grown by merely 17 auditors while up to June 2015 only 27 new accountants have qualified**[39]**.** At present there are 64 certified auditors and 26 audit companies, however many of the certified auditors (approximately one third) do not practice while other 30 percent are foreign auditors. The largest audit market share is held by affiliates of international audit firm networks. Information on audit fees is not fully transparent and there is no requirement at present for audit companies to provide annual transparency report. Under the current education and practical experience requirements, it takes approximately nine (9) years to become a licensed auditor. Proposed amendments to the accounting and auditing legislation are shortening this period to six (6) years because the practical experience requirement has been allowed to be met while sitting for the professional exams.

34.

[39] Information provided by ICAM.

ANNEX 1:

Status of implementation of the 2007 A&A ROSC policy recommendations in Montenegro

	2007 ROSC recommendation	Status of implementation, as of September 2015
I	**STATUTORY FRAMEWORK**	
1.	Translate and adopt IFRS, ISA and the Code of Ethics	**Mostly Addressed** IFRS, ISA and the Code of Ethics have been adopted without modification through the 2005 Law on Accounting and Auditing. The Institute of Certified Accountants of Montenegro (ICAM), by Decree of the Government of Montenegro, in 2007 became leader of a Consortium (including the Economic Faculty of Montenegro and the Association of Accountants and Auditors of Serbia) recognized to fulfil a range of regulatory tasks in the field of accounting and auditing, including the adopting, translating and publishing of International Financial Reporting Standards (IFRS) including International Accounting Standard (ISA), International Standards on Auditing (ISA) and the IESBA Code of Ethics. Currently the translated (Serbian) version of the 2009 effective IASs and IFRS 10, 11, 12 and 13, and the 2013 edition of ISA and the Code of Ethics are available to be purchased from ICAM upon demand. The translation process needs to be enhanced to ensure timely updates be available and these be widely released and published.
2.	Establish sustainable institutional arrangements for continuous adoption and publication of IFRS, ISA and the Code of Ethics	**Mostly Addressed** For the purpose of establishing a sustainable arrangement, ICAM has entered into a formal agreement with the Serbian Association of Accountants and Auditors (SAAA) and the Association of Accountants and Auditors of Republika Srpska (AAARS) for a common translation of IASB and IAASB pronouncements as well as IESBA literature. Currently the translated (Serbian) versions of the IFRS, ISA and the Code of Ethics are available to be purchased upon demand. The electronic version of the translations is not available due to copy right restrictions currently owned by SAAA. The translation process needs to be enhanced to ensure timely updates be available and these be widely released and published.

3.	Align financial reporting framework with the *acquis* for the major issues identified in the ROSC report including the preparation of consolidated financial statement, the regulation of audit firms and electronic publication of financial statements.	**Addressed** The 2005 Law on Accounting and Auditing has been amended twice since the 2007 A&A ROSC – once in 2008 and another time during 2011. With the aforementioned amendments the major gaps with the *acquis* as identified with the ROSC report have been addressed, including introducing the requirement for a parent company to prepare consolidated financial statements, clarifying the approval and registration of audit firms, and requirement to file financial statements with the Tax Directorate (electronic and paper format) which are further made publically available.
4.	Conduct a thorough examination identifying the gaps between the regulatory framework and the *acquis* relevant for financial reporting and auditing beyond the issues already identified in this ROSC report.	**Addressed** As part of the ongoing IDF Grant, a thorough examination of gaps between the Draft Laws on Accounting and Auditing and the *acquis* has been undertaken. International Consultants have supported the Ministry of Finance by preparing updated versions of transposition tables in order to benchmark the draft Laws on Accounting and Auditing with the requirements of the new EU Directives on Accounting and Auditing.
5.	Define proportionate financial reporting requirements for SME companies	**Not Addressed** Although some reporting and filing simplifications are allowed for non-listed small companies (e.g. the requirement to prepare and file only balance sheet, income statement and statistical annex) and these are excluded from the requirement to perform a statutory audit, still all legal entities, including micro, small and medium, (approximately 23,500 entities) in Montenegro need to use IFRS for the preparation of their annual accounts. The IFRS financial reporting framework has been developed for general purpose financial statements of listed companies and contains some complex accounting treatments and detailed disclosure requirements. In general, the cost of application of IFRS does not outweigh the benefits for SME companies in particular when they are manager-owned. In addition, the current scope of application of IFRS is too large relative to the existing capacity to properly apply IFRS. Considering the cost-benefit aspect as well as the lack of existing capacity to properly apply IFRS, Montenegro should consider further differentiating the financial reporting requirements for various entities depending on their economic significance and should consider making full use of the exemption

		possibilities for preparation and disclosure of financial statements for SMEs under the *acquis*. A potential solution, followed also by many other countries of the Western Balkans, would be the adoption of the IFRS for SMEs[40] for smaller entitles.
6.	Improve publication of financial statements	**Mostly Addressed** All companies (including listed companies and financial institutions) are obliged to file with the Tax Directorate their general purpose annual or consolidated financial statements prepared according to IFRS (no later than 31 March) while companies subject to statutory audit also file their auditor reports (no later than 30 June). The filing is both in paper and electronic format and small companies are allowed to file only their balance sheet, income statement and statistical annex. The balance sheet and income statement (for all companies) are made public via the Tax Directorate web page. Listed companies and financial institutions have additional publication requirements and are also obliged to file their audited general purpose annual or consolidated financial statements and their quarterly financial statements with the Security and Exchange Commission, Central Bank and Insurance Supervision Agency, who publish these on their websites. The requirements to make file financial statements and audit reports public are in place, but in practice many companies fail to timely adhere to their filing obligations. In addition, the electronic filing system has some limitations as it does not allow the upload of audit opinions, notes to financial statements and there is at preset no functionality available to upload consolidated financial statements. This has implications over the transparency and public availability of reliable financial information for companies, except for banks and insurance undertakings which have further publication requirements defined by the Law on Banks and Law on Insurance.
II	**ACCOUNTING STANDARDS**	
7.	Translate and adopt IFRS.	**Mostly Addressed** IFRS have been adopted without modification through the 2005 Law on Accounting and Auditing. Currently the

[40] The IFRS for SMEs are issued by the IASB and are a self-contained standard designed to meet the reporting needs of smaller companies which is a simpler and less complex version compared to the full IFRS (e.g. some topics not relevant for SME such as earnings per share are not included, fewer disclosures are required, measurement basis in some cases is simplified and revisions to the standard are expected to be limited to once in every three years to relieve the translation efforts).

		translated (Serbian) version of the 2009 effective IASs and IFRS 10, 11, 12 and 13, are available to be purchased from ICAM upon demand. The electronic version of the translations is not available due to copy right restrictions currently owned by SAAA. The translation process needs to be enhanced to ensure timely updates be available and these be widely released and published.
8.	Reconsider financial reporting by SME limited liability companies.	**Not Addressed** Although some reporting and filing simplifications are allowed for non-listed small companies (e.g. the requirement to prepare and file only balance sheet, income statement and statistical annex) and these are excluded from the requirement to perform a statutory audits, still all companies in Montenegro must apply IFRS for the preparation of their annual financial statements. The IFRS financial reporting framework has been developed for general purpose financial statements of listed companies and contains some complex accounting treatments and detailed disclosure requirements. In general, the cost of application of IFRS does not outweigh the benefits for SME companies in particular when they are manager-owned. In addition, the current scope of application of IFRS is too large relative to the existing capacity to properly apply IFRS. Considering the cost-benefit aspect as well as the lack of existing capacity to properly apply IFRS, Montenegro should consider further differentiating the financial reporting requirements for various entities depending on their economic significance and should consider making full use of the exemption possibilities for preparation and disclosure of financial statements for SMEs under the *acquis*. A potential solution, followed also by many other countries of the Western Balkans, would be the adoption of the IFRS for SMEs[41] for smaller entitles.
9.	Issue alerts to accounting issues of a horizontal nature such as asset valuation and impairment, related party transaction disclosures, and pension accounting.	**Addressed** Current developments in accounting and auditing, as well as specific accounting issues / audit topics are being address at the various ICAM educational events. IACM also publishes a professional bulletin available to its members and the wider professional audience where

[41] The IFRS for SMEs are issued by the IASB and are a self-contained standard designed to meet the reporting needs of smaller companies which is a simpler and less complex version compared to the full IFRS (e.g. some topics not relevant for SME such as earnings per share are not included, fewer disclosures are required, measurement basis in some cases is simplified and revisions to the standard are expected to be limited to once in every three years to relieve the translation efforts).

		accounting and auditing topics and updates are communicated.
III	**AUDITING STANDARDS**	
10.	Translate and adopt ISA and a Code of Ethics.	**Mostly Addressed** ISA and the Code on Ethics have been adopted without modification through the 2005 Law on Accounting and Auditing. Currently the translated (Serbian) version of the 2013 ISAs and IESBA Code of Ethics is available to be purchased upon demand from ICAM. The electronic version of the translations is not available due to copy right restrictions currently owned by SAAA. The translation process needs to be enhanced to ensure timely updates be available and these be widely released and published.
IV	**MONITORING AND ENFORCEMENT OF ACCOUNTING AND AUDITING STANDARDS**	
11.	Reinforce SEC's enforcement of financial reporting by listed companies.	**Not Addressed** The Securities and Exchange Commission (SEC) has limited monitoring and enforcement role of financial reporting requirements, particularly for listed companies. With no IFRS specialists, the supervisory activities of the SEC focus on the timeliness and completeness of financial statements rather than substantial application of IFRS principles.
12.	Establish supervision of financial reporting of insurance undertakings, investment and pension funds.	**Addressed** The Supervision of financial reporting of insurance undertakings is performed by the Insurance Supervision Agency, while the supervision of the financial reporting of investment and pension funds is under the authority of the Security and Exchange Commission (SEC). With few or no IFRS specialists, enforcement is mainly limited to the regulatory field of prudential reporting.
13.	Introduce a system of external quality assurance on auditors and audit firms.	**Not Addressed** There is no mandatory system of Quality Assurance Review (QAR) over the external audit function in Montenegro. Initial steps have been undertaken by ICAM to set up a soft (voluntary) system of QAR for its members which is in inception phase of implementation. There are

		two phases envisaged: the first being a membership quality assurance survey designed to identify areas of weaknesses in quality control and audit practices of audit firms, and the second phase should include on field investigations and QARs. Establishing a requirement for mandatory system for QAR in line with the EU *acquis* is urgently needed.
14.	Introduce public oversight over auditors and audit firms.	**Not Addressed** At present, there is no system of public oversight over the statutory audit function. Initial steps towards building a system of public oversight over the statutory audit function are been taken which include a process of amending the auditing legislation with an aim to create a public oversight system aligned with the *acquis*. In addition to the legislation reform, tools and methodologies for quality inspections prepared with external technical assistance provided through an ongoing IDF Grant are expected in the near future, but it will take additional time and effort before these tools and methodologies will become fully operational. Combined with adequate institutional set-up and funding sources for public oversight system, this may produce the desired effect on improving the audit quality and the reliability of financial statements.
V	**DEVELOPMENT OF ACCOUNTING AND AUDITING PROFESSION**	
15.	Resolve the current situation on the institutes.	**Addressed** The Institute of Certified Accountants of Montenegro (ICAM), by Decree of the Government of Montenegro in 2007 became leader of a Consortium (including the Economic Faculty of Montenegro and the Association of Accountants and Auditors of Serbia) recognized to fulfil a range of regulatory tasks in the field of accounting and auditing, including: (i) adopting, translating and publishing IFRS, IAS and the Code of Ethics including all updates, (ii) organizing and conducting professional certification, education and examination (iii) monitoring and quality control; (iv) maintaining registers of certified accountants, (vi) conducting professional education according to International Education Standards, (vii) providing advice and issuing opinions regarding application of accounting standards and (viii) other publication obligations (e.g. patters of financial statements, instructions, etc.). The Institute of Accountants and Auditors of Montenegro (IAAM) remains to function as voluntary professional

		organization, without any regulatory powers, offering training and certification in the field of accounting and management.
16.	Increase the number of auditors.	**Not Addressed** Since 2007, the number of certified auditors has grown by merely 17 auditors. At present there are 64 certified auditors and 26 audit companies, however many of the certified auditors (approximately one third) do not practice while other 30 percent are foreign auditors.
17.	Develop a generally accepted training for becoming certified accountant.	**Addressed** ICAM based its professional accountants education and training model on the Montenegrin Educational Standard (which is national education standard based on IFAC International Educational Standards), the Code of Ethics for professional accountants and the relevant Directives of the EU. There are three professional titles offered: Bookkeeper, Charted Accountant and Certified Accountant. All present professional qualifications are based on the 2007 ACCA syllabus as translated into Serbian language by SAAA (considering limited resources, ICAM has entered into consortium with the Serbian Association of Accountants and Auditors – SAAA for common approach in conducting both initial professional and continues professional education programs). Although some updates of the syllabus have been performed through bi-monthly magazines issued by ICAM and recommended literature, the syllabus should be reviewed and updated. ICAM should establish a process to periodically review and enhance the framework for education of accountants in line with good international practices, supported by adequate educational materials, tutors and other support available to candidates.
VI	**EDUCATION AND TRAINING**	
18.	Develop an up to date accounting curriculum of the University of Montenegro; update the outdated accounting text books.	**Partially Addressed** During 2010, through a Tempus-Program funded project, a modernized undergraduate study program in accounting was introduced in the state-owned Faculty of Economics at the University of Montenegro in Podgorica. Although the accounting curriculum was modernized and the outdated accounting text books have been updated, the study program could benefit further upgrade, especially towards increased focus on practical accounting and finance related

		courses. Students could benefit if they have more courses related to management accounting, financial accounting and reporting, finance, and if they are guided in these fields gradually through all academic years. Faculty staff could benefit further from additional resources and guidance on practical teaching tools of the principles of international standards and codes used by the accounting profession.
19.	Develop a properly supervised practical training for accountants and auditors and a system of Continuing Professional Education for auditors.	**Mostly Addressed** The 2005 Law on Accounting and Auditing does not mandate for certified auditors to undertake certain amount of training hours annually through a program of Continual Professional Education (CPE) in order to be eligible to maintain their certification. During 2010, ICAM introduced a CPD program for all members, requiring 40 annual CPE credits/hours. Members are required to report annually to ICAM on CPD hours obtained in order to renew their accounting certification, but other than verifying the total hours, ICAM does not check the quality of the courses taken. The new Draft Law on Auditing (still under development) does introduce a requirement for mandatory CPD for certified auditors based on a program of professional training approved by the Ministry of Finance.