



The World Bank Centre for Financial Reporting Reform

Report on the Observance of Standards
and Codes on Accounting and Auditing

Update

Kosovo

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Main Abbreviations and Acronyms

ACCA	Association of Chartered Certified Accountants
AMIK	Association of Microfinance Institutions of Kosovo
BPK	Banking and Payments Authority of Kosovo
CBK	Central Bank of Kosovo
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IAASB	International Auditing and Assurance Standards Board
IAESB	International Accounting Education Standards Board (formerly EDCOM)
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IES	International Education Standard
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
ISA	International Standards on Auditing
KAS	Kosovo Accounting Standards
KFRC	Kosovo Financial Reporting Council
KTA	Kosovo Trust Authority
MEF	Ministry of Economy and Finance
NBFI	Non-bank Financial Institution
PIE	Public Interest Entity
PISG	Provisional Institutions of Self-Government
POE	Publicly-Owned Enterprise
ROSC	Reports on the Observance and Standards of Codes
SCAAK	Society of Certified Accountants and Auditors of Kosovo
SME	Small and Medium-sized Enterprise
SMO	Statement of Membership Obligation
SOE	Socially-Owned Enterprise
SSA	Stabilization and Association Agreement
UN	United Nations
UNMIK	United Nations Mission in Kosovo
UNSCR	United Nations Security Council Resolution

CURRENCY: EURO

Regional Vice President	Philippe H. Le Houerou
Country Director	Jane Armitage
Acting Sector Manager	Marius Koen
CFRR Head	Henri Fortin
Task Team Leader	Jan Tyl

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Executive Summary

i. This report is an update of the 2006 Report on the Observance of Standards and Codes (ROSC) on Accounting and Auditing (A&A) in the Republic of Kosovo (Kosovo). The main objective of the 2006 ROSC was to assist the then-existing Kosovo Provisional Institutions of Self-Government in strengthening A&A practices, in order to support sustained economic growth and improve the competitiveness of local enterprises. For this update, a particular focus was placed on analyzing significant changes in (a) the statutory framework for A&A standards and practices; (b) the A&A profession; (c) the quality of accounting education at the tertiary level; (d) the enforcement of A&A requirements both within the profession and by financial sector regulators; and (e) financial reporting standards in the banking sector. The report also focuses on assessing the degree of alignment of Kosovo's institutional framework for corporate financial reporting with the EU *acquis communautaire*.¹ This ROSC A&A Update will also provide inputs to the Financial Sector Assessment Program (FSAP) Update.

ii. Kosovo is a potential candidate for EU membership and has an estimated population of 1.8 million as of 2010. Its gross domestic product (GDP) per capita is estimated at US\$3,059 in 2010. The use of the euro as the *de facto* local currency has sharply reduced exchange rate volatility and has helped keep inflation low. The Kosovo economy is highly dependent on remittances. In the light of the country's ambition to join the EU, this update compares the corporate financial reporting framework in Kosovo with international experience and good practice in accounting and audit regulation, mainly in EU Member States, in order to assess the quality of financial information and to make policy recommendations.

iii. Although consistent support for reforms has been provided by the World Bank, the European Commission and USAID since 2006, the landscape for corporate financial reporting has not changed dramatically since the last ROSC. The most significant change was the passing of a new financial reporting law in July 2011 and an increase in the threshold for statutory audits. Although the new law brings the legal framework closer to the *acquis*, further changes will be required to achieve full alignment with the *acquis*.

iv. In the financial sector, prudential regulations and supervision have been substantially strengthened. A new Law on Banks, Microfinance Institutions and Non-Bank Financial Institutions (the new Law on Banks) was approved in April 2012. There is still no securities market in Kosovo.

v. Kosovo's accounting and audit profession has developed rapidly over the last few years and the national professional body, SCAAK, became a member body of the International Federation of Accountants (IFAC) in 2010. SCAAK faces significant

¹ *Acquis communautaire* is a French term referring to the cumulative body of European Community laws, comprising the EC's objectives, substantive rules, policies and, in particular, the primary and secondary legislation and case law – all of which form part of the legal order of the European Union (EU). This includes all the treaties, regulations and directives passed by EU institutions, as well as judgments laid down by the European Court of Justice. The *acquis* is dynamic, constantly developing as the Community evolves, and fundamental. Member States are bound to comply with it. (www.eurofound.europa.eu/areas/industrialrelations/dictionary/definitions/acquiscommunautaire.htm).

challenges in meeting its obligations as a member of IFAC, especially relating in the areas of ethics, quality assurance and discipline. There has been some progress in integrating accounting education in the universities with professional qualifications; however, more effort is needed in this area.

vi. On the compliance side, the most significant change since 2006 is the improvement within the banking supervisor. Enforcement of accounting requirements among non-banking entities remains a challenge and there has been little improvement since 2006. The financial reporting regulator, the Kosovo Board for Standards on Financial Reporting (KBSFR), which was never fully functional, was replaced by the Kosovo Financial Reporting Council (KFRC) in 2011. No significant change, however, was made to the operating model of the regulator and, unless this is addressed, there is a distinct possibility that KFRC will follow in the footsteps of KBSFR. Steps have yet to be taken toward establishing a quality assurance system consistent with the EU Statutory Audit Directive.

vii. The 2006 ROSC A&A set out a series of recommendations. To date, many of these recommendations have not been acted on, and most of those that have been implemented still need additional work.

Summary of Recommendations

viii. While all the policy recommendations set forth in Section VI of this report are important, there are several overriding themes, which the ROSC team considers to be "critical success factors" for the development of reliable and efficient financial reporting infrastructure, economic growth (including the mobilization of investment capital) and the fight against corruption.

ix. These critical success factors are based on four underpinning principles as follows:

- **Clarity of reform objectives** – for the alignment with the *acquis* effort to succeed, it is critical that the gaps are identified and appropriately addressed by amending relevant legislation. The ROSC team has prepared preliminary draft concordance tables to be discussed with the Ministry of Economy and Finance (MEF);
- **Effective implementation** – amending the legislation will not resolve the challenges in itself. The legislation needs to be implemented and enforced and an official should be designated to oversee and coordinate the reform process;
- **Institutional capacity** – institutions designed to supervise and enforce compliance with the law need to be adequately staffed and technically competent. "Competence" in this context includes the ability to understand and interpret the relevant international standards and regulations applicable in Kosovo.
- **Alliances** – where capacity needs to be strengthened, stakeholders need to work together in order to achieve the desired results.

x. Based on these principles, short- and medium-term priority actions have been identified and are summarized in the table below. In order to successfully address them, an action plan containing the next steps would be very helpful. Regional REPARIS provides one platform, where such a plan could be formulated and discussed, drawing on the experiences of other countries in the region, including Croatia (which has achieved alignment with the *acquis* in this area).

Objective	Recommended Short- to Medium-Term Priority Actions and Institutional Arrangements	Leading Institution(s)
Develop a strategy to improve the financial reporting infrastructure in Kosovo	Use concordance tables to identify the differences between the current law and the <i>acquis communautaire</i> (drafts have been prepared by the ROSC team), designate an official responsible for the reform, and amend the law to align it with the <i>acquis</i> .	MEF, KFRC SCAAK and donors
	To ensure a timely follow-up of this ROSC Update, seek support of donors to assist with the concordance table completion and drafting the required amendments.	
	With the assistance of donors, retain experts to assist in preparing and implementing changes to the law.	
	Clarify which accounting standards apply to which type of business entity.	
	Take initial steps toward establishing a sustainable quality assurance system for the statutory audit function.	
Develop a transparent financial reporting regime conducive to foreign investment	Revisit the requirement to publish financial statements to ensure that the institution assigned the task of collecting the statements has the capacity to effectively enforce the requirement. Consider assigning the task to the Kosovo Business Registration Agency.	MEF
	Design a strategy, with the assistance of donors, to improve the performance, functionality and capacity of KFRC.	MEF, KFRC and donors
Strengthen accountancy education system	Promote the integration of university and professional education.	MEF, universities, SCAAK
	Update and enhance the quality of tertiary-level accounting education.	Universities
	SCAAK should share its resources with the universities and, at a minimum, part of the training program for accounting technicians should be devolved to universities.	SCAAK

A key long-term goal for Kosovo is to have a robust and effective audit quality assurance and disciplinary and sanctions systems in place. As an IFAC member, SCAAK should play a leading role in this, in collaboration with the KFRC.

I. Background

I.A ROSC Program

1. This assessment of accounting and auditing practices in Kosovo is part of a joint initiative of the World Bank and International Monetary Fund (IMF), to prepare Reports on the Observance of Standards and Codes (ROSC). The assessment should focus on the strengths and weaknesses of the accounting and auditing environment, and how those influence the quality of corporate financial reporting. It involves a review of mandatory requirements and actual practice, using International Financial Reporting Standards (IFRS)² and International Standards on Auditing (ISA)³ as benchmarks. It draws on international experience and good practice in accounting and auditing regulation. The assessment also has regard to the relevant requirements of EU laws (the *acquis communautaire*).

2. Since its inception in early 2000, the ROSC Accounting and Auditing (A&A) program has concluded evaluations of the A&A environment in more than one hundred countries around the world including all but one countries of the Europe and Central Asia Region. The ROSC A&A initiative has, in general, two major purposes:

- To evaluate the quality of national A&A standards, mainly by comparing them with IFRS and ISA, and by assessing compliance with those standards.
- To assist the country in developing an action plan for improving the institutional framework that underpins its corporate financial reporting and auditing regime

To meet these objectives, the scope and application of the standards need to be assessed in the framework of the country's overall development strategy, and recommended improvements need to be tailored to the country's specific circumstances.

3. **This assessment is an update of the first A&A ROSC for Kosovo, which was published in June 2006.**⁴ Therefore, the primary objective is to capture and describe the progress achieved since then, particularly as regards the implementation of international standards and good practice, as well as the degree of Kosovo's alignment with the *acquis* in relation to financial reporting.

² International Financial Reporting Standards are issued by the International Accounting Standards Board (IASB), an independent accounting standard-setter based in London, United Kingdom. The IASB announced in April 2001 that its accounting standards would be designated "International Financial Reporting Standards" (IFRS). Also in April 2001, the IASB announced that it would adopt all of the International Accounting Standards (IAS) issued by the International Accounting Standards Committee (IASC). Within this report, the term IFRS encompasses both IFRS and IAS as well as the related interpretations.

³ International Standards on Auditing (ISA) are the standards issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants (IFAC).

⁴ The 2006 ROSC A&A is available at:

<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/EXTCENFINREPREF/0,,contentMDK:21569478~menuPK:7356128~pagePK:64168445~piPK:64168309~theSitePK:4152118,00.html>

I.B Economic Context

4. **Kosovo is landlocked and borders the Former Yugoslav Republic of Macedonia to the south, Albania to the west and Montenegro to the northwest. The remaining frontier belt is with central Serbia and remains the subject of dispute.** The largest city and the capital of Kosovo is Pristina (alternatively spelled Prishtina or Priština). The name Kosovo has represented a number of different entities with different borders over the centuries. There have also been periods when no political entity has existed with the name of Kosovo. Today's outline dates back to 1946.

5. **Following the end of the Kosovo war of 1999, the United Nations Security Council Resolution (UNSCR) 1244 placed Kosovo under temporary UN administration (UNMIK). A declaration of independence was adopted on 17 February 2008 by the Assembly of Kosovo.** In July 2010, by a ten-to-four vote, the International Court of Justice issued an advisory opinion that the declaration was not in violation of international law and stating that "the Court thus arrives at the conclusion that, taking all factors together, the authors of the declaration of independence of 17 February 2008 did not act as one of the Provisional Institutions of Self-Government within the Constitutional Framework, but rather as persons who acted together in their capacity as representatives of the people of Kosovo outside the framework of the interim administration."⁵ As of February 16, 2012, 87 UN member countries have recognized Kosovo.⁶ On 29 June 2009, Kosovo became a full member of the World Bank and IMF.⁷

6. **As of 2011, the population of Kosovo was estimated at 1.8 million, of which 45% lived in urban areas. With a GDP per capita of EUR 2,368,⁸ Kosovo is one of the poorest countries in Europe;⁹ and its income levels are about two-thirds of other countries of the Western Balkans.** Poverty remains widespread but has been declining – according to the latest available data (from 2009), 34% of the population is living below the national poverty line, and an estimated 12% are extremely poor. Extreme poverty is disproportionately high among children, the elderly, households with disabled members, and female-headed households. However, the narrowness of the poverty gap suggests that poverty is not deep. With a 45.4 percent official unemployment rate and a very low employment rate (26.4%), Kosovo has the weakest employment track record in Europe, and its labor force participation rate among the working age population (48.1%) is substantially below the average for all transition economies (65%).

7. **Kosovo's economic growth has been steady since the end of the conflict in June 1999, attributable in part to large public investments in post-conflict reconstruction as well as an increase in private consumption and investment (albeit from a very low base).** Growth slowed from 6.9 percent in 2008 to about 2.9 percent in 2009, and recovered to 4 percent in 2010 in the wake of the global economic crisis – this is a much better outcome than for the rest of Southeast Europe, which mostly suffered declines in output. The relatively small impact of the global financial and economic crisis on real growth up to this point reflects Kosovo's limited integration with the global economy.

⁵ <http://www.icj-cij.org/docket/files/141/15987.pdf>

⁶ http://en.wikipedia.org/wiki/International_recognition_of_Kosovo

⁷ <http://www.state.gov/r/pa/prs/ps/2009/06a/125489.htm>

⁸ The census from April 2011 revealed that population of Kosovo is smaller than previously estimated. This brings a higher GDP per capita than estimated before the census.

⁹ World Bank – Kosovo Partnership Program; Snapshot September 2011

8. Use of the euro as the de facto local currency has eliminated exchange rate volatility and kept inflation at a low level. However, Kosovo's economy is highly dependent on remittances. The external sector experienced a worsening trade balance in 2011. Imports of goods were expected to increase by 13.2%, while exports of goods were expected to increase by 10.5%. These developments contributed to increasing the trade deficit as a ratio to GDP by 1%, from 40.8% in 2010 to 41.8% in 2011.¹⁰ On official estimates remittances constitute 15% of GDP. However, by some estimates, the total flow of remittances amounts to 30% of GDP. The likely impact of the current European sovereign debt and banking crises on Kosovo is given in Box 1. In short, the expectation is that official aid, external bank lending, foreign direct investment and remittances from abroad will be reduced over the next couple of years as a result of the broad economic slowdown in Europe.

9. **The vast majority of Kosovo's 90,000 businesses are microenterprises with limited access to external financing.** Where external financing is extended to a business, the decision is ordinarily not based on the assessment of financial statements and repayment capacity, but, rather, on the quality and value of the collateral provided by the borrower.

10. **Sound, reliable financial information is fundamental for moving away from the collateral-based lending model, toward cash-flow lending or credit-scoring, both of which depend on the lenders' ability to obtain transparent and accurate financial data.** The quality of accounting and auditing practices in an economy like Kosovo is important for both the private and public sectors, in that both play an important role in driving the country's growth.

11. **Since the 2006 ROSC was issued, the role of the banking sector has changed significantly relative to the financing of the Kosovo economy.** It is still true that small private enterprises are typically funded by retained earnings and informal, family-generated funding. Loans to the private sector stood at 10% of GDP in 2003 and 23% of GDP in 2005. That ratio grew to 33% in 2009; in June 2011, the total value of loans issued by the banking system in Kosovo stood at EUR 1.6 billion (34.3% of GDP).¹¹ Kosovo's banks remain liquid; their deposit-to-loan ratio was 181% at the end of 2004 and 133% in November 2011¹², providing a strong enough refinancing base for further expansion of their loans' portfolio. At the end of 2011 there were eight banks operating in Kosovo. As was the case in 2006, two of these, whose majority shares are owned by foreign banks, owned the majority of banking assets. Only two banks are owned by local shareholders, one foreign bank maintains only a branch in Kosovo. The banks are not involved in complex financial transactions and this helped them to avoid many of the recent difficulties of the global banking sector. The Central Bank requires the banks to follow, more or less, Basel I capital requirements. There are no investment banks or funds in Kosovo.

¹⁰ Macroeconomic Review No. 6 (July – September 2011) , Ministry Of Finance

¹¹ <http://bqk-kos.org/repository/docs/2011/Financial%20Stability%20Report%20No.%202.pdf>

¹² Central Bank of Kosovo Monthly Statistics Bulletin, November 2011

Box 1: Impact of the Current European Crisis on Kosovo

The crisis in the eurozone increases the economic headwinds facing Kosovo, even though it is not a member of the single currency area. Kosovo is expected to be affected in the following ways:

- **Many members of the eurozone have had to adopt austerity programs, increasing tax levels and reducing levels of government spending.** This has contributed to a weakening of economic activity in the EU, which has led to a reduced demand for exports from Kosovo and a reduction in the flow of remittances to the country. Austerity measures will also have an adverse impact on flows of donor aid which still make up a significant segment of receipts for the government budget in Kosovo.
- **In addition, due to losses on many of their assets, including holdings of sovereign bonds, many euro zone banks are seeking to strengthen their capital positions.** This affects not only banks in the countries which have applied for assistance from the EU and IMF, but also large banks in Germany, France, the Netherlands and other EU centers of finance. As a result, many euro zone banks are reconsidering their levels of exposure to markets outside their home country. Given that banks from the euro zone are the largest bloc of capital providers to Kosovo banks, any reduction in the activity of such banks is likely to have a dampening effect on Kosovo's economic growth in the near to intermediate term.

12. **At the end of 2011, thirteen licensed insurance companies had operations in Kosovo; of these, 10 were non-life insurance and three were life insurance companies.** The separation of life and non-life insurance is a legal requirement. In general, the insurance sector remains underdeveloped, with the majority of premium revenue (70%) originating from third-party liability insurance (premium rates are set by the Central Bank of Kosovo - CBK). As of September 2011, the total technical reserves¹³ of all insurance companies in Kosovo stood at EUR 52.6 million, and the total annual profit for the sector was EUR 2.7 million.¹⁴

13. **Microfinance institutions (MFIs) have recently provided significant capital to small businesses.** There are 15 MFIs in Kosovo, of which 11 are NGOs and 4 are joint stock companies (the NGO status is a relic of the 1999 post-war period in Kosovo, when all MFIs were required to be registered first as NGOs). Twelve MFIs are members of the Association of Microfinance Institutions of Kosovo (AMIK). According to AMIK, the entire portfolio of MFI credits is about EUR 90 million, and the clientele consists of 60,000 businesses. MFIs make up approximately 5% of the financial sector in Kosovo in terms of assets, and their combined loan portfolio is around 15% of total lending in Kosovo. The largest MFI is KEP Trust (KEP). KEP started its activities in 1999, as a project of the Swiss-based International Catholic Migration Commission (ICMC). Its aim was to provide credit to small and micro enterprises, initially focusing on businesses of Kosovo refugees returning after the end of the

¹³ The technical reserves held by insurance enterprises consist of the actuarial reserves against outstanding risks in respect of life insurance policies, including reserves for with-profit policies which add to the value on maturity of with-profit endowments or similar policies, prepayments of premiums and reserves against outstanding claims (OECD definition).

¹⁴ Central Bank of Kosovo Monthly Statistics Report Nr. 123

conflict.¹⁵ KEP's portfolio is about EUR 30 million, allocated to more than 18,000 clients; the company has 34 branches and over 320 employees. In addition to MFIs, the financial sector includes 4 money transfer agencies, 30 exchange bureaus and 5 non-bank financial institutions.¹⁶

14. **Given their importance to the economy, MFIs are also regulated by the new Law on Banks.** The law differentiates between "registered MFIs" and "licensed MFIs"; the difference relates to the extent that time and savings deposits can be accepted by the MFI. The new Law on Banks stipulates that no MFI can operate in Kosovo unless it is registered or licensed by the CBK. The law lists specific conditions that must be met for an MFI to be registered, licensed and, where appropriate, to have its license or registration cancelled. The law also lists activities that are permitted and stipulates the MFIs can operate as NGOs or joint-stock companies. Prudential requirements include a minimum level of capital (EUR 200,000), and a ban on credits to management and related parties (if such credits are extended, the amounts are deducted from the capital for prudential reporting purposes). Total liabilities may not exceed 500% of equity. MFIs must maintain their records in accordance with IFRS.

15. Some MFIs are large enough that their operations have approached the scope of commercial banks, and governance issues have arisen in at least one case (involving management abuse of administered funds). For this reason, some of the larger MFIs are considering applying to the CBK to become banks. Such a change is permitted by the new Law on Banks, subject to possible retroactive taxation by the Tax Administration of donated capital and retained earnings. The transformation requires the initial registration of a joint-stock company with the clear identification of the future owners and their residence (NGOs do not have shareholders or owners).

16. **One licensed, supplementary pension fund was in operation at the end of 2011 – the Sloveno-Kosovan Pension Fund (SKPF).** Since the previous ROSC Report, the licenses of seven other supplementary pension funds have been revoked and/or cancelled, and their funds were transferred to either SKPF or the public pension fund. SKPF was established in September 2006 and licensed in November 2006 by the CBK. The founders are Prva Group of Slovenia and Dukagjini Corporation of Kosovo. The Prva Group asserts on its web pages that it serves 274,041 individuals, and that it has EUR 317.296 million of assets under management and EUR 32 million of capital as of November 30, 2011.¹⁷ These totals, however, relate to the entire Prva Group operations (in Slovenia, Serbia, Romania, Albania, FYR Macedonia and Kosovo). The SKPF itself has approximately 4,000 members and EUR 4 million in assets (the minimum required by law). The SKPF took over two other failed funds in 2008 and currently administers two funds, one comprising retired members, the other comprising members prior to retirement. As yet, Kosovo has no capital market.

17. **The enterprise sector in Kosovo is currently comprised of three types of entities: (i) privately-owned enterprises, which account for the majority of the sector (by number and share of output); (ii) publicly-owned enterprises (POEs); and (iii) socially-owned enterprises (SOEs).** The distinction between POEs and SOEs - which together form the public enterprise sector – is rooted in the commercial legal regime of the

¹⁵ <http://keptrust.org/?cid=2,27>

¹⁶ Central Bank of Kosovo - <http://bqk-kos.org/?cid=2,7>

¹⁷ <http://www.prvagroup.eu/en/members.asp?FolderId=343>

Socialist Federal Republic of Yugoslavia (SFRY)¹⁸, which was reinstated in Kosovo by UNMIK in December 1999.¹⁹ Under that regime, POEs corresponded roughly to the state-owned enterprises of other socialist countries; however, social ownership was a concept unique to the SFRY, in which enterprises were owned not by the state but by workers. UNMIK exercised the power to regulate and manage all POEs and SOEs until the Kosovo Trust Agency (KTA) was formed in 2002 as an autonomous agency. The KTA then took over responsibility for the POEs and SOEs.²⁰ The KTA also became responsible for the process of privatizing the SOEs, which was begun in 2003. POEs were not included in this privatization process.

18. **In 2008, the Privatization Agency of Kosovo (PAK) was established (by Kosovo Law No. 04/L-034 on the PAK) as the successor of the KTA.** PAK is an independent public body and its primary mandate is to privatize or liquidate all remaining SOEs. All assets and liabilities of the KTA were transferred to the PAK. Those SOEs designated for privatization are sold by way of public tender in "waves." At the end of 2011, 53 such waves had been completed and the vast majority of SOEs had been sold. In general, PAK creates NewCo's from SOEs and then offers for sale assets and current liabilities. Investors only bid for the assets - and only a few of the current liabilities - of the NewCo, not those of the original SOE itself. PAK sometimes breaks SOEs into several smaller NewCos. Those SOEs deemed unfit for privatization are liquidated by way of the sale of assets. At the end of 2011, 10 such liquidation asset sales had been completed. Total proceeds from liquidation sales and privatization were EUR 31,399,356 and EUR 517,231,073 as of 31 March 2011.²¹

19. **On June 13, 2008, the Assembly approved Law 03/L-087, On Publicly Owned Enterprises. The Law lists 30 POEs in total and classifies them into four categories: Central POEs (6 enterprises), Regional Water POEs (6), Regional Irrigation POEs (2) and Local POEs (16).** While the regional and local POEs include water, waste and heating companies of little economic significance, the central POEs include much larger entities, such as the Kosovo Energy Corporation, Transmission System and Market Operator, Post and Telecommunications of Kosovo, Kosovo Railways and Pristina International Airport (in accordance with the agreement between UNMIK and the Government of Iceland (GOI), the GOI is responsible for ensuring that air traffic control operates in accordance with the rules of the International Civil Aviation Organization).

20. **Foreign direct investment (FDI) inflows to Kosovo for the first three quarters of 2010 totaled EUR 203 million, an amount comparable to 2009. This is well below the 2007 annual high of EUR 414 million.** The leading investors came from Germany, Slovenia and Switzerland; there were also smaller inflows of investment from Austria, Great Britain, Turkey, the Netherlands, Albania, the US and France. The main sectors attracting FDI were financial services, manufacturing, construction, processing industries and real estate.²² Despite some success in attracting new investors, the level of FDI inflows has stagnated in recent years. As a result, the trade balance has actually worsened in recent years, and the official unemployment rate remained at approximately 45%.²³

¹⁸ i.e., the regime in place prior to 1989.

¹⁹ UNMIK Regulation 1999/24 - the legal definition of POEs and SOEs is given in the Law on Enterprises of the SFRY 77/88.

²⁰ <http://www.kta-kosovo.org/ktareg/UNMIK%20Regulation%20No.%202002-12%20Establishing%20the%20KTA.pdf>

²¹ Quarterly Report on Activities of PAK, 18 April, 2011

²² www.balkaninsight.com.

²³ The World Bank - http://siteresources.worldbank.org/KOSOVOEXTN/Resources/Kosovo_Snapshot.pdf.

21. **This report assesses the quality of financial reporting only of selected POEs and private entities, and compares the findings with those in the 2006 ROSC report.** This comparison then enables recommendations for improvement.

II. Accounting and Auditing Framework: Main Changes Since 2006 ²⁴

II.A Statutory Framework

22. This report addresses changes in financial reporting by corporations (i.e. companies in which shareholders have limited liability) as well as by POEs and SOEs (Para. 17) since the 2006 A&A ROSC. The formation and regulation of business entities in Kosovo is governed by law No. 02/L-123 On Business Organizations (the Law on Business Organizations), which was approved by the Assembly in 2007 and succeeded UNMIK Regulation 2001/6 (2001) on Business Organizations. While the UNMIK Regulation provided a set of principles to be followed by business organizations, the Law on Business Organizations is much closer to a full-fledged commercial code. The Law on Business Organizations (similarly to the UNMIK Regulation) sets out that a business organization may be established as a personal business enterprise, a general or a limited partnership, or a corporation. A corporation may be incorporated as a joint stock company or a limited liability company:

- A joint stock company is a corporation, which may have any number of shareholders, as well as different classes of shareholders. It may conduct a public offering of its shares, and the owner(s) may transfer his/her (their) shares without the approval of other shareholders or of the company. The minimum initial capital of a joint stock company must be at least EUR 25,000 (unchanged from the UNMIK Regulation requirement). The general meeting of shareholders is the ultimate governing body of a joint stock company. The board of directors is responsible for ensuring compliance with applicable laws and accounting standards. The law further requires the Board to ensure that the annual report contains "an independently audited statement of the company's financial position," which seems to require that annual reports of joint-stock companies include the audited balance sheet only.²⁵
- A limited liability company is a corporation, the shares of which are distributed only to its founders or among other pre-determined persons. The number of shareholders was limited to 50 under the UNMIK Regulation; this limitation has since been abolished. A limited liability company cannot conduct a public offering of its shares. Restrictions on transfer of ownership have been loosened: while the UNMIK Regulation gave existing shareholders a right of first refusal but permitted the company agreement to state otherwise, the Law on Business Organizations permits transfer of ownership to anybody, but permits the company agreement to include a right of first refusal. The governing body of a limited liability company is also a general meeting of its shareholders. The Law on Business Organizations abolished the provision of the UNMIK Regulation that required limited liability companies with more than 20 shareholders to appoint a board of directors.
- The banking and insurance laws require banks and insurance companies to be incorporated as joint stock companies. Because of the nature of their activities, this report regards these financial institutions as *public interest entities*.

²⁴ This report outlines the legal principles applicable with regard to accounting, auditing and financial reporting and does not attempt to give anything more than an introduction to the issues. This report is not meant to be an exhaustive rendition of the law nor is it legal advice to those reading it.

²⁵ Law No. 02/L-123 On Business Organizations, Para 169.2b

23. **The Kosovo Financial Reporting Council (KFRC) is the successor to the Board on Standards of Financial Reporting (KBSFR); it was established in 2011 under Law No.04/L-014 On Accounting, Financial Reporting and Audit (the Law on Financial Reporting).** As a super-regulator, the KFRC is the standard-setter for accounting, auditing, ethics and professional audit education, regulator, and enforcer. KFRC's mandate is identical to that of the KBSFR. However, the KBSFR always lacked the capacity to exercise its regulatory authority, which resulted in the significant implementation challenges noted in the 2006 ROSC. There is a need for an honest assessment of the KFRC as it is not clear that it will have the capacity to address the regulatory challenges that it faces. This report includes proposals to address the difficulties experienced by the KBSFR that may also affect the KFRC. The Law on Financial Reporting establishes the framework for accounting and auditing in Kosovo and makes the KFRC responsible for the following:

- setting accounting and auditing standards for business organizations; however, this authority does NOT include the financial sector;
- setting the accounting and auditing requirements for the financial statements of business organizations including corporations established under the Law on Business Organizations, SOEs, and POEs, though not for the financial sector;
- establishing and issuing standards for the professional training of accountants and auditors, leading to the certification of accountants and the licensing of auditors; however, the law delegates the regulation of accountants to licensed professional associations; and
- reviewing applications for and issuing audit licenses to individuals and firms, as well as the licensing of professional associations (currently, the Society of Certified Accountants and Auditors of Kosovo is the only licensed professional association).

To discharge all these responsibilities, the KFRC must have an extensive technical expertise at its disposal. Currently, the KFRC does not possess such expertise.

24. **Over the years, the KBSFR received some technical assistance as part of donor-funded projects addressing broader issues than financial reporting. This has allowed modest progress to take place, but the KFRC has yet to fully discharge all of its responsibilities.** Without a functioning standard-setter and regulator, the Kosovo financial reporting regime has not been able to play any role in attracting inflows of FDI. The KFRC held its first meeting in the late 2011; and it is not yet clear whether it can develop the capacity to address its predecessor's shortcomings. The Law on Financial Reporting added another major responsibility on KFRC, namely, collecting and publishing the financial statements of entities subject to the requirement to file financial reports. The Law, however, still leaves the KFRC within the MEF (this means that the employees of KFRC are subject to public-sector salary scales) and maintains the provision of the previous law that fees and fines collected by the KFRC are revenues of the budget.

25. **This configuration did not work well for the KBSFR during its almost ten years of existence and is not likely to work for the KFRC. Therefore, we recommend that the KFRC would benefit from a change in this aspect of its organizational structure. This would enhance its capacity to create the financial reporting infrastructure needed to support direct foreign investment.** Such a change could be achieved through one of the following options: (i) the KFRC becoming a self-financing agency, responsible for collecting and administering fees and fines, which could employ

experienced professional accountants and/or auditors in its office at market rates; (ii) maintaining the status quo, but increasing significantly KFRC's budgetary appropriation so as to provide it with the resources needed to function effectively; or, (iii) a combination of (i) and (ii). Options (i) and (iii) would require an amendment of the law.

26. **The Law on Financial Reporting was approved in 2011; its drafting and approval took almost seven years (according to the previous ROSC Report the law was "in the process of being amended" In 2006).** As was the case under the UNMIK Regulation, financial institutions are specifically excluded from application of the Law on Financial Reporting and are subject to regulation by the CBK instead. The new law was expected to contribute to the alignment of the corporate reporting framework with the *acquis*. Although, it fell short of this objective, the new law does represent an improvement on the UNMIK Regulation, and the salient points are described below.

27. **Business organizations are currently classified as large, medium, small and micro on the basis of the following criteria:**

Type of organization	Turnover	Gross assets	Average number of employees
Large business organizations (two out of three)	higher than EUR 4 million	higher than EUR 2 million	in excess of 50
Medium business organizations (two out of the three)	higher than EUR 2 million	higher than EUR 1 million	more than 10
Small business organizations (two out of three)	higher than EUR 50,000	higher than EUR 25,000	up to 10
Micro enterprises	lower than EUR 50,000	lower than EUR 25,000	fewer than 10

28. Large business organizations will have to apply, starting from 2013, IFRS, as well as interpretations, recommendations and necessary guidance that are approved by the KFRC. All medium and small business organizations registered as limited liability companies or joint-stock companies will also be required to apply IFRS as approved by the KFRC. The wording of the law raises a question as to whether the IFRS for SMEs could be imposed by the KFRC on medium and small enterprises, thereby alleviating some of the regulatory burden on these companies, or whether full IFRS must be applied by small companies. The KFRC has indicated that it is currently working with the MEF to amend the law so that the IFRS for SMEs will be applicable in Kosovo at some date in 2013.

29. **The Law on Financial Reporting is silent on the use of Kosovo Accounting Standards (KAS), although it holds the KFRC responsible for maintaining KAS. This has created confusion.** The law specifies that consolidated financial statements of all business organizations should be in accordance with 78/660/EEC (this is a reference to the "Fourth Directive" while the "Seventh Directive" on consolidated accounts is not mentioned)

and IFRS.

30. Financial statements of large and medium business organizations must be audited, with the applicable auditing standards being ISA. The calendar year is also the fiscal year for all business organizations. The previous ROSC Report noted that the scope of statutory audit requirements was "too broad in Kosovo considering the stage of development of the audit profession." In this respect, the new Law on Financial Reporting represents a significant improvement. Under the UNMIK Regulation, financial statements of all corporations with annual turnover or total assets greater than EUR 250,000, as well as all POEs and SOEs were subject to statutory audit; however, the new law limits the requirement to large and medium business organizations.

31. **Shareholders of non-financial companies subject to an audit requirement appoint the auditor from among the auditors licensed by the KFRC. The appointment of a bank or insurance company's auditor is subject to CBK approval.** That approval is based on the following conditions:

- The sole practitioner or audit firm must have been duly licensed by the KFRC. A foreign audit firm is eligible for licensing by the KFRC, if at least two of its local partners are auditors licensed in Kosovo.
- The approval is granted for a given financial institution's audit in a given year, i.e. an audit firm/sole practitioner may be approved as the auditor of several financial institutions, but it is necessary for separate approvals to be granted to that firm for the audit of each financial institution for that financial year.
- The audit firm/sole practitioner must provide the CBK with (i) a program for the audit of the financial institution, and (ii) a description of the resources to be used for the audit mission.
- In practice, financial statements of all banks and insurance undertakings are audited by the local member firms of major international audit networks (Big Four plus Grant Thornton).
- There is a five-year firm rotation requirement for auditors of financial institutions. This requirement is applicable to both sole practitioners and firms, as the regulation does not distinguish between the two.

32. **Filing of annual company financial statements is required by law, in line with the EU *acquis*.** Article 11 of the Law on Financial Reporting requires that, "Financial statements of large business organizations have to be submitted to and published by the KFRC and a copy submitted to the Ministry of Trade and Industry (MTI) which hosts the Business Registry, no later than 30 April of the following year." Further, consolidated financial statements have to be submitted to the KFRC and a copy sent to the MTI, no later than 30 of June of the following year. This requirement is similar to the requirement in the UNMIK Regulation, which imposed the obligation on all business organizations to file financial statements with the business registry and the Ministry for Economy and Finance (MEF). As was noted in the 2006 ROSC Report, this requirement is still widely ignored and is not effectively enforced. Continued non-compliance with the filing requirement contributes to the overall lack of transparency and trust in the business environment.

33. **The filing requirement in the Law on Financial Reporting does not specify the**

agency at MTI to which the financial statements should be submitted; neither does the law provide guidance as to how the KFRC should arrange for the collection of those statements, given its current lack of capacity. Staff at the KFRC have been working to improve the situation and have achieved some successes. Still, with the exception of the financial institutions governed by the CBK, the financial statements of many Kosovo companies, including POEs and SOEs (Airport Pristina and Post and Telecom of Kosovo are notable exceptions) are not publicly available. This situation is inconsistent with *the acquis*; and the resulting lack of transparency is not conducive to attracting foreign direct investment.

34. **Law No. 03/L-074 On the Central Bank of the Republic of Kosovo (the Law on the CBK) replaced the relevant UNMIK Regulation in 2008. The Law on the CBK contained a specific reference to standards setting: "... to set accounting standards for the financial institutions in Kosovo in line with international financial reporting standards." In 2010, however, the Law on the CBK was replaced by Law No.03/L –209 On the Central Bank of Kosovo (the new Law on the CBK).** The new Law on the CBK does not include a reference to the mandatory application of IFRS by banks; instead it states in Article 23 that, "Financial institutions shall furnish the Central Bank with such information and records concerning their operations and financial condition as the Central Bank may require." However, the IAS/IFRS requirement was also specified in UNMIK Regulation No. 1999/21 for the licensing, regulation and supervision of the banks, and the new Law on Banks refers, in Article 53, to "internationally-accepted" accounting standards as applicable to Kosovo banks.

35. **Financial statements of all banks are available on their websites.** The requirement that banks publish their financial statements is not clearly specified by law and it is a good example of transparency in Kosovo that they do so.

36. **Banks are required to produce the following prudential reports:**

- Weekly reports on liquidity reserve maintenance at the CBK;
- Monthly reports, including a computation of liquidity reserves; balance sheet; statement of income; summary of classified assets and provisions; report on deposits, loans, and wire transfers; report on cash imports and exports; statistical report on balance sheet items; statistical report on interest rates; and a report on international transactions;
- Quarterly Reports including assets and other liabilities; changes in capital and reserves; other income and expenses; receivables overdue more than 90 days (non-performing assets) and other overdue assets; credit concentration; credit exposure to insiders; balance sheet maturities; funding concentration; off-balance sheet items; capital base risk-weighted assets; interest rate risk exposure; foreign exchange positions; and pay instruments; and
- Annual report - any bank or branch of a foreign bank should submit a copy of its Annual Report to the CBK within 120 days of the end of its financial year. The Annual Report includes its balance sheet, statement of income, supporting notes and schedules, and the auditor's opinion and management letter for the preceding financial year.

The CBK may, on an *ad hoc* basis, increase the frequency of reporting and/or expand reporting requirements, if it considers this necessary to carry out its supervisory

responsibilities.

37. **Insurance companies are governed, as they were during the previous ROSC analysis, by UNMIK Regulation No. 2001/25 (the Law on Insurance) and the CBK's strict regulations. The Law on Insurance requires that insurance companies maintain their books and prepare financial statements "in accordance with International Accounting Standards."** However, Rule 7, dated October 18, 2001, amending the Law on Insurance requires that insurance companies set up technical provisions and that, "technical provisions notably include a provision for unearned premiums and a provision for unpaid claims and claims incurred but not reported.... CBK will establish a permanent ratio of incurred losses and a permanent percentage for incurred but not reported losses. The financial statements will record these established amounts or the actual amounts, whichever is greater."²⁶ Rule 7 therefore instructs insurance companies to depart from IFRS.

38. **The appointment of the auditor is subject to CBK approval, and the Law on Insurance imposes the "whistle-blowing duty" on an auditor who detects instances of fraud and systematic transgression of CBK rules.** Also, each insurance company and insurance intermediary is obliged to prepare quarterly reports for the CBK concerning its administration and insurance operations, liquidity, solvency, and profitability. These reports cover the parent company and its subsidiaries, on an individual and a consolidated basis. Insurance companies also submit each month a balance sheet, income statement, investment report, premium register and claims register using a format prescribed by the CBK.

39. **There are plans to liberalize the insurance sector in the near future. Presently, none of the insurance companies publishes a full set of financial statements on their websites. Only fragments, e.g., the balance sheet and auditors' report are readily available to the public.** The CBK does not require that insurance organizations publish their audited financial statements; therefore, the publishing requirement of the Law on Business organizations prevails in this sector.

40. **The new Law on Banks was adopted in April, 2012.** The law provides guidance transforming MFIs into commercial banks. Two major issues involved in such a transformation include capitalization and retroactive taxation. Typically, an NGO was established by a donor-financed grant, i.e., there is no capital, and the founder is usually another, mostly foreign NGO(s). Any MFI wishing to transform itself into a bank must first be transformed into a joint-stock company under the law on business organizations. CBK notes that it is necessary to establish the address of the future bank and, also, to deposit capital into the entity being transformed. Many MFIs have been successful in their activities and their accumulated surpluses have so far been exempt from taxation under their status as an "institute of public benefit." There is now a provision in the new law on banks that, on transformation, when the "public benefit" status expires, both the donated capital and accumulated surplus may be subject to retroactive taxation by the Tax Administration.

II.B The Accounting and Auditing Profession

41. **The accounting and auditing profession in Kosovo has developed rapidly as a result of significant technical assistance combined with effective leadership and**

²⁶ Rule 7 on Amending Rule on Accounting Standards and Record-keeping Requirements for Insurance Companies and Insurance Intermediaries dated as October 18, 2001

governance arrangements. UNMIK Regulation 2001/30 (UNMIK Law) was replaced by Law No.04/L-014 on Accounting, Financial Reporting and Audit (Law on Financial Reporting) in 2010. However, the framework created by the UNMIK Law has been left largely intact. The new framework reaffirmed the existence of a "super-regulator," even though its title was changed from the Kosovo Board on Standards for Financial Reporting (KBSFR) to the Kosovo Financial Reporting Council (KFRC).

42. **The law does not formally recognize SCAAK as the sole professional association for accountants and auditors.** However, the conditions the law sets out for the certification (by the KFRC) of any future association are so strict that it will be difficult for any competition to SCAAK to emerge any time soon. Any new association must demonstrate to the KFRC that it has met all the requirements of the law and complied with all standards, guides and recommendations promulgated by IFAC.

43. **The Financial Reporting Law requires licensed auditors to be members of a recognized accounting association.** In theory, this might result in a scenario where several professional associations include auditors. However, given the small size and context of Kosovo, one strong professional body should be developed at this time. **Indeed, in the light of the proven competence of some SCAAK members, some form of temporary capacity-building assistance from SCAAK to the KFRC should be considered in order to enhance the capacity of the KFRC.**

44. **The KBSFR had recognized SCAAK as Kosovo's professional accountancy (including auditing) body, and it is assumed that SCAAK's recognition continues under the Law on Financial Reporting.** Having been the beneficiary of significant donor support, SCAAK has developed a good certification program for accountants and auditors. The current program is benchmarked to the standards of the International Accountancy Education Standards Board (IAESB) and the requirements of the EU Statutory Audit Directive; it has a three-stage structure that is similar to that of the Association of Certified Chartered Accountants' (ACCA) qualification program.

45. **With a membership of about 700, SCAAK is able to generate sufficient revenues and is now self-sustaining.** Revenues are derived primarily from professional education (both pre- and post-qualification) activities, which amount to about 80% of its total receipts. SCAAK has not been successful in convincing its members to pay annual membership fees. These are only paid by auditors, who must be members in good standing of a professional association, and by students, who would not be allowed to sit for exams if they had outstanding arrears. Other members pay their fees only sporadically; but, for tactical reasons, SCAAK has chosen not to take a disciplinary action against delinquent members. As noted in the 2006 ROSC Report, "the lack of a tradition of external auditing in Kosovo and the legacy of a culture of control have contributed to a general lack of awareness in the business and wider community of the potential benefits of the audit, and the potential importance of the role of a well qualified accountant in the economic development of Kosovo." This statement remains valid; even though some there have been some improvements. Accounting is still seen by many as a regulatory burden, not as a source of information for decision-making and planning purposes. **Both the KFRC and SCAAK should continue working to build awareness of the benefits of accounting and auditing, building on the series of consultations with businesses on the changes in legislation and on the importance of compliance and transparency that were organized in the first half of 2012.**

46. **SCAAK successfully met the membership requirements and was admitted as a full member of IFAC in 2009.** There were three major recommendations concerning SCAAK in the 2006 ROSC Report. These included the following:

- Provide Continuing Professional Development (CPD) and training;
- Regulate and monitor its members engaged in public practice; and
- Establish procedures for disciplining its members.

SCAAK currently operates a CPD program, and it has been developing (with the Dutch professional association, NIVRA) procedures for regulating and monitoring the performance of its members engaged in public practice. **However, there is a need to act in coordination with the KFRC on disciplinary procedures, and no such coordinated action has yet taken place.**

II.C Accounting Education and Training

47. **The curriculum at the Faculty of Economics of the University of Pristina (UOP) has been modernized; however, no integration of professional education has taken place, as the universities and SCAAK have not agreed on terms.** In 2008, five students from UOP were sent under a USAID-funded program to study for twelve months in the Master of Accounting program at the Arizona State University. The conditions of the funding included a commitment by UOP to retain those individuals on their return to Kosovo as members of the Accounting Department. Upon their return to Kosovo in 2009, these individuals developed a three-year accounting program. However, four of the five individuals have since left UOP. The program was rolled out but discussions to integrate the UOP program and SCAAK's certification program have not yet led to tangible results.

48. **It is not clear to what extent the UOP accounting program follows the curriculum created in 2009, and UOP's accounting graduates have not been granted exemptions from SCAAK's certification program.** Limited resources and students' effort would be more effectively utilized if these programs were integrated; however, integration should not require that SCAAK compromise its rigorous rules and procedures. **All stakeholders should recognize that a failure to bridge the differences between the profession (represented by SCAAK) and UOP damages the prospects for raising the standard of accounting education in Kosovo.**

49. **The KFRC is responsible for the quality of professional education.** The Law on Financial Reporting stipulates that, in order to become an auditor, the individual must be a member of a recognized professional association. Further, the Law requires that professional associations may certify only those individuals who completed a certification program that complies with International Accounting Education Standards (IES).²⁷ The KFRC is responsible for certifying accounting associations, one of the criteria being the quality of the candidate association's certification program; thus the KFRC has a decisive input regarding the quality of professional education. There have previously been efforts by individuals or groups of individuals to meet the requirement to develop a quality certification program by submitting to the KBSFR unauthorized copies of SCAAK materials; the KBSFR rejected all these applications.

²⁷ IESs are issued by IFAC's International Accounting Education Standards Board (IAESB).

50. SCAAK has established a program to certify accounting and auditing professionals that complies with the Law on Financial Reporting. The program was upgraded significantly after 2006 to address the restrictions placed on entry into the profession by that law. The current SCAAK certification program meets the requirements of the Statutory Audit Directive and International Education Standards (IESs). The SCAAK curriculum for accounting technicians, certified accountants and auditors was initially established in 2001, and has attracted nearly 4000 applicants since then. This is *prima facie* evidence of a strong demand for professional training. That program, which relies on translated and regularly updated ACCA training materials, consists of the following three stages:

Qualification and number	Entry Requirement	Exam Requirement	Experience Requirement
Accounting Technician As of December 2011 - 368 (135 active)	Same as for admission to University program	<ul style="list-style-type: none"> Financial accounting 1 Cost accounting Management information systems Commercial law and taxes 	One year of accounting experience
Certified Accountant As of December 2011, 221 (119 active)	A University degree in economics or business and completed accounting technician examinations	<ul style="list-style-type: none"> Financial reporting Audit Financial Management Advanced Management Accounting 	Proof of at least three years of accounting experience
Auditor As of December 2011, 139 (96 active, including 11 grandfathered)	Completed certified accountant stage	<ul style="list-style-type: none"> Advanced Financial Reporting Advanced Audit and Assurance Strategic Management Professional Practice 	Proof of at least three years of experience working with auditor

51. The restriction in the new Law on Financial Reporting limits entry to the profession (as a Certified Accountant) to accounting, business, or economics graduates. Unless adapted, this restriction will have devastating implications for students currently enrolled in the certification program who do not meet this criterion. In October, 2012, the KFRC introduced a transitional arrangement, to enable aspiring professionals who hold university degrees, in other fields, and who enrolled the SCAAK certification program prior to the approval of the new Law, to complete the program and enter the profession.

52. SCAAK's entry requirements for its program of professional education for

accountants and auditors are in compliance with IES 1, *Entry requirements to a program of professional education*, and the content of the professional accounting education program complies with IES 2, *Content of Professional Education Programs*. The program, which is based on a renowned international educator's textbooks, is now aligned with IFRS and ISA; the lack of such alignment was noted in the 2006 ROSC Report and evaluated as "a major weakness."

53. **SCAAK has implemented a system of pre-approval, monitoring and effective control of the quality of experience obtained by accountants and auditors, as required by IES 5, *Practical Experience Requirements*.** However, the system is focused on assessing formal compliance with established criteria (e.g., required number of hours spent on auditing, tax and accounting); the qualitative aspect is still missing from the assessment of practical experience.

54. **SCAAK's examination policies were modeled on the Examination Administration Advisory document provided by IFAC, and meet the requirements of IES 6, *Assessment of Professional Capabilities and Competence*.** Early in its existence, SCAAK implemented measures to provide anonymity for candidates and to protect the integrity of the examination process. It was more difficult to ensure that persons engaged in providing the courses were not involved in the formulating or administration of examinations; this resulted from SCAAK's very limited capacity at its outset. As the pool of tutors and examiners has grown, SCAAK's procedures for maintaining the anonymity of candidates and the independence of examiners have become more rigorous.

55. **Accountants and auditors are required to take part in programs of continuing professional development (CPD).** IES 7, *Continuing Professional Development* regulates the CPD requirement for all accountants and auditors. Since 2008, SCAAK has required that all certified accountants (and, thus, also auditors) participate in 40 hours of CPD every year; certified accountants must have least 18 hours of formal, verifiable CPD annually, and licensed auditors need 24 hours of formal, verifiable CPD. The members are required to assess which CPD content is relevant to them, based on their work and/or specialization.

56. **SCAAK has made progress in working towards compliance with the Statements of Membership Obligations (SMO) issued by IFAC.** Given that SCAAK has no role in standard setting, SMO 3, 5 and 7 (ISA, IPSAS and IFRS implementation) are not really applicable, even though on an informal basis SCAAK's expertise is regularly sought by the KFRC (and previously by the KBSFR). SCAAK has complied with SMO 2 and 4 (IES and 2010 Code of Ethics). SCAAK needs to improve compliance with SMO 1 and 6 ("Quality Assurance" and "Investigation and Discipline"). A Quality Assurance system has been developed with the help of the Dutch professional association, NIVRA; however, no tangible results were available at the time of this report's completion. As noted above, the issue of investigation and discipline needs to be addressed in coordination with the KFRC, which holds the required legislative authority. Until now, SCAAK has not performed an investigation and discipline procedure, and improvement in this area is needed as a matter of urgency.

II.D Accounting and Auditing Standard-setting

57. **The Law on Financial Reporting requires that the KFRC issue accounting standards that comply with IFRS. As was the case in 2006 with the KBSFR, the current structure and resources of the KFRC are inadequate to enable it to fully discharge this mandate.** The KFRC is the standard setter and regulator for non-financial sectors. The wording of the Law on Financial Reporting does not mention Kosovo Accounting Standards (KAS) in Article 5 (applicable accounting standards), although Article 14 makes KFRC responsible for the development of KAS. In March 2012, the KFRC issued an administrative instruction clarifying that KAS are applicable for 2012 to all companies; IFRS should be applied in future periods, starting January 1, 2013. Given the complexity of IFRS, a significant uncertainty exists in the accounting community as to whether this requirement is realistic. The KFRC has been working with the MEF to resolve the issue.

58. **The accounting profession is regulated, and the 2006 A&A ROSC Report concluded that, "... the KBSFR has not yet developed the capacity to carry out its mandate." The current ROSC has concluded that, despite the technical assistance provided to KBSFR after 2006, not much has changed in this area; indeed, in some ways, the KFRC is starting anew.** Like the UNMIK Law, the Law on Financial Reporting provides for funding of the KFRC through the Kosovo consolidated budget, and, as noted in the previous ROSC Report, the level of funding is insufficient for KFRC to discharge its responsibilities. KFRC's responsibilities include: (i) drafting and approving Kosovo Accounting Standards (KAS), in accordance with IAS/IFRS and relevant EU directives (however, **KAS are not mentioned in the section on accounting standards applicable in Kosovo**); (ii) supervising and implementing auditing standards, in accordance with ISA and relevant EU directives; (iii) licensing and maintaining the register of auditors as well as of the audit firms, as well as professional associations of accountants and auditors; (iv) stipulating the standards of professional ethics and internal quality to be followed by auditing firms; (v) supervising continuing professional education, quality assurance and disciplinary system for the profession.

59. **The KFRC consists of seven members. The Chairman and other members of KFRC are appointed by the Government for three year terms (one consecutive reappointment is allowed) based on nominees advanced by the following institutions: the CBK (1), academia (1), the MEF (1), the profession (1), and the business community (3).** In addition to the responsibilities listed above, the Law on Financial Reporting mandates that the KFRC collect and publish the financial statements of those business organizations that are required to make public their financial statements. Currently, KFRC has neither the human nor the technical capacity to discharge this additional responsibility; therefore, it is not clear how this function will be accomplished. Given that the fees and sanctions collected by KFRC are income of the budget, there is a **need to reconsider the KFRC "business model;"** it is not likely that KFRC can discharge all of its responsibilities within its existing structure. **Given the size of the Kosovo economy, it is estimated that five well-qualified and experienced professionals are needed to make KFRC fully functional.**

60. **As noted above, the KFRC urgently needs to consider whether its "business**

model" is appropriate for the discharge of its responsibilities. Even though four professional committees have been appointed in 2011, it is not likely that the committees will be able to perform all standard setting and regulatory tasks without further significant support, and the support of at least four or five qualified, experienced, in-house experts, i.e., experts employed by the KFRC. At the same time, the KFRC should greatly benefit from the progress of Albania, where IFRS are translated and updated on an annual basis.²⁸ Albania has also arranged translations of ISA (2010 edition translated) and the IFAC Code of Ethics (the 2006 edition, which has since been superseded, is the only version that has been translated). While there are some differences in terminology, use of these Albanian translations is the optimal solution for Kosovo.

61. **The 2006 ROSC report concluded that "current staffing of KBSFR's secretariat is inadequate to allow KBSFR to regulate accounting and auditing effectively." This report comes to the same conclusion. KFRC's office (secretariat) employees do not have the accounting or auditing experience required to provide technical support to the committees and the KFRC.** In addition, unless there is a fundamental change in the way that the KFRC operates, this issue is unlikely to be addressed in the short- to medium-term; KFRC's inability to hire (and retain) qualified personnel as a consequence of the applicable government salary scale, which is well below market rates, severely constrains its ability to develop the needed capacity. For the KFRC to discharge fully its responsibilities, alternative sources of financing are necessary – the full range of tasks devolved to the KFRC cannot be funded solely from the budget. **Similarly to the experience of the Kosovo Auditor's General Office, the KFRC would greatly benefit from a twinning program or an equivalent arrangement to "import" institutional capacity and to mitigate the risk of regulatory capture.**

62. **The CBK sets accounting requirements for banks and insurance undertakings. The resultant systems meet the CBK's prudential objectives, but they are not fully consistent with "full IFRS."** Although differences exist (loan provisioning and technical reserves) between CBK financial reporting rules and IFRS, the differences do not represent a major difficulty even in cases where the amounts are material. The CBK discussed with the ROSC team the possibility of a footnote reconciliation disclosure, which would eliminate the current practice of having to prepare two almost identical sets of financial statements and two auditors' reports; the relevant regulation was subsequently drafted and views of the ROSC team were sought.

II.E Enforcing Accounting and Auditing Standards

63. **Unlike the UNMIK Regulation, the Law on Financial Reporting contains sanctions for non-compliance. However, the KFRC currently lacks the capacity to enforce the law; and, unless the necessary capacity is developed, this situation is not likely to change in the foreseeable future.** This capacity issue is exacerbated by the provision in the Law requiring the transfer of all funds collected by KFRC to the state consolidated budget. As noted in the 2006 ROSC report and also previously in this report, a fundamental increase in KFRC's institutional capacity is necessary for KFRC to fulfill all the requirements of the Law. For the immediate future, a greater involvement of the profession may serve as an interim solution, given SCAAK's rapid development.

²⁸ <http://www.kkk.gov.al/faqe.php?id=1&l2=101>

64. **The CBK monitors and enforces compliance with IFRS, as applied in Kosovo, in the financial statements issued by banks, insurance companies MFIs and those Non-Bank Financial Institutions (NBFIs) that apply IFRS.** Even though prudential regulation and supervision receives more attention than enforcement of accounting standards in the preparation of general purpose financial statements, the CBK does employ inspectors to review compliance with financial reporting requirements.

65. **Although it relies on auditors to flag issues of compliance with IFRS in general purpose financial statements, the CBK has developed some capacity of its own to enforce IFRS.** Since the 2006 ROSC, the CBK's capacity to review the statutory financial statements presented by banks and insurance undertakings has increased; in addition, the risk related to non-compliance is offset by the banks' lack of involvement in complex financial transactions. Still, as in the past, CBK relies on audit firms with international affiliations to verify that banks and insurance companies are complying with IFRS. One comment from the 2006 ROSC regarding the reliance of CBK on auditors is still valid: *"It is not supported by an adequate system of external quality assurance subject to public oversight. Consequently, audit firms are essentially not monitored and there is little assurance regarding the quality of their audits other than the reliance on their reputation."*

III. Observed Reporting and Auditing Practices

III.A Status of IFRS Adoption in Kosovo

66. **Two sets of accounting standards have been in effect in Kosovo since 2001: (i) the Kosovo Accounting Standards (a selection of modified "2001 IAS"), or "KAS," and (ii) IFRS. KAS have never been updated. The review of KAS was conducted in 2006 as part of the first A&A ROSC. As was to be expected, it identified significant differences between KAS and IFRS already at that time. Some of the differences, still valid, between KAS and IFRS included:**

- *Impairment of assets may or may not be recognized under KAS.*
- *Liabilities for employment benefits may be understated.*
- *There is no KAS equivalent of IAS 41, Agriculture.*
- *KAS do not deal with consolidated financial statements.*
- *KAS have not been updated for other new and revised IFRS, including revisions to IAS, issued by the IASB since 2001.*

The KFRC decided to require KAS in 2012 and intends to introduce the IFRS for SMEs in 2013.

67. **The Law on Financial Reporting requires the KFRC to issue auditing standards that conform to ISA.** As noted above (para. 60), the KFRC should benefit from the Albanian translation of ISA, given that it presently does not have the capacity to introduce its own auditing standards. Further, the use of the Albanian translation is also recommended on account of IFAC's policy to support, where possible, only one translation of its standards in any given language. In September 2012, a memorandum for the use of the Albanian translation of ISA in Kosovo was signed with the Albanian translating body IEKA.²⁹

68. **As in 2006, no mechanism currently exists for monitoring and enforcing auditing standards and other requirements related to the audits of banks. This is further exacerbated by the lack of clarity over who has that enforcement authority.** The CBK does not have any enforcement powers in relation to quality assurance (except for approving the banks' auditors); and, no other agency has such powers, given that the Law on Financial Reporting excludes the CBK from enforcing audit standards and the KFRC from regulatory activities in the banking sector. SCAAK has established a quality review scheme for auditors; however, the development of the system is a mid- to long-term effort.

69. **Audit quality among entities subject to some form of regulation, e.g., by the CBK or by a foreign parent, has improved substantially.** However, the issues resulting from the lack of understanding and proper usage of ISA persist, though to a lesser extent than in 2006. The 2006 report noted that, "... problems with the objective of an audit, audit risk assessment, basic audit procedures, and other such common problems" existed. While SCAAK has made significant progress in introducing and enforcing the CPD requirement, inadequate understanding of audit principles, and the objective, performance

²⁹ <http://www.ifac.org/about-ifac/translations-permissions/translations-database>

and documentation of an audit still prevails among many sole practitioners and in many small practices.

III.B Review of Financial Statements

70. **This ROSC reviewed a sample of 22 sets of audited financial statements:**

- Fifteen sets were prepared in accordance with IFRS, and seven sets were prepared in accordance with Kosovo Accounting Standards (KAS);
- Seven sets of audited financial statements were from the financial sector, including three banks (two domestic and one foreign), three insurance companies (two foreign, one domestic) and one micro finance institution. All of these financial statements were prepared in accordance with IFRS;
- Two sets of audited financial statements were from publicly-owned enterprises, prepared in accordance with IFRS;
- 13 sets of financial statements were from other corporations; six of which were prepared in accordance with IFRS, and seven in accordance with KAS.
- Financial statements subject to the review were audited by both member firms of large international networks (Big Four) and by member firms of second-tier international networks. Of 22 audit opinions, ten were clean, two clean with an emphasis of matter, six were qualified, one was qualified with an emphasis of matter, one was qualified with another matter, and two were with disclaimers.

71. **Overall, compared with the 2006 ROSC, the quality of financial reporting as well as audits, particularly in the financial sector, has improved.** The reviewers did not identify material departures from applicable standards in the financial statements subject to the review, though many deficiencies were noted. Caution is required, however, before drawing broad conclusions from the results of this review. Virtually all of the financial statements reviewed are subject to some form of regulation or enforcement, whether by the CBK or by a foreign parent; as a result, these companies are likely to be financially stronger with better accounting than the norm. The list of comments made by the reviewers is attached in Annex 1.

III.C Perceptions of the Quality of Financial Reporting

72. The 2006 ROSC Report concluded that, **"Corporate financial reporting in Kosovo is perceived to be of very low quality, with the exception of the audited financial statements of financial institutions, which are perceived to be of relatively higher quality."** To obtain an update, the ROSC team organized a workshop in Pristina on April 16, 2012. The workshop was attended by almost 40 professional accountants and auditors, SCAAK members. The participants represented primarily professional accountants in business, about a third of them were licensed auditors. The following is the summary of their views.

73. **The low quality of financial reporting persists within the largest segment of Kosovo businesses – micro-entities – and, to a lesser degree, in small- and medium-size**

enterprises. Financial reporting among financial institutions and entities audited by local member firms of international networks is perceived to have improved significantly.

74. **There is a perception, particularly among professional accountants, that regulatory capacity in relation to accounting and auditing is not what it should be, despite some improvement over the last two years.** Some believe that accounting should be regulated similarly to auditing to ensure quality improvement. There appears to be a perception that financial reporting has generally improved over the last five years. Many accountants believe that the presence of the statutory audit requirement, as well as the increased engagement of SCAAK, have driven the improvements.

75. **The issue of requiring different sets of financial statements for various users has, to some extent, subsided and is no longer considered a pervasive problem.** Although there has been an increase in the use of financial statements by financial institutions, banks still lend to businesses mainly on the strength of posted collateral. Since a vast majority of companies are owner-managed, owners are not typically users of the financial statements. At the same time, there is a perception that management's perception of the usefulness of financial statements and audit has increased since 2006. However, there is still a need for significant training on the application of both IFRS and ISA.

76. **Disclosures are generally perceived as inadequate in that they usually include only a breakdown of balances in the financial statements, without a discussion of policies or additional information that is relevant for users and is required by reporting standards.** There is also a perception that the recently issued administrative instruction by the KFRC for all companies to use KAS in 2012 and IFRS thereafter is not realistic; application of IFRS will result in significant additional cost to smaller entities. To resolve this, the KFRC has indicated that it was working with the Ministry of Economy and Finance to amend the law and introduce the IFRS for SMEs in 2013.

77. **In relation to accounting education, there is some sense of improvement at the university level since the 2006 ROSC but it is not enough.** Many accountants feel that tertiary education is, in general, still attached to the "old way" of doing things and that coordination of efforts between various players (i.e., middle schools, SCAAK, universities) is insufficient.

78. **The requirement for an annual renewal of audit licenses by the KFRC and the CBK (for auditors of financial institutions) imposes an unnecessary regulatory burden and should be reconsidered.** The renewal procedure is not automatic even in instances where the license should be renewed if certain criteria are met (e.g., CPD hours, professional fees, no disciplinary action, etc.). Instead, both audit firms and auditors must submit a number of documents annually to the KFRC and the CBK; in the case of auditors of financial institutions, the process is duplicative as a result of additional requirements set by the CBK. This process is not likely to foster higher audit quality.

IV. Recommendations

79. **The recommendations of this ROSC Update include the recommendations of the 2006 ROSC that have not yet been adequately addressed, most of which have already been discussed in this report. This report also includes additional recommendations from the analysis carried out in connection with this ROSC.** Generally, the recommendations fall under the six major pillars of the accounting and auditing infrastructure. In many instances, the reforms in each pillar need to be conducted in parallel, as the six pillars reinforce each other. For example, strengthening the standard-setting process without similarly bolstering the monitoring and enforcement mechanism will fail to address non-compliance with accounting standards. Critical success factors for implementation include leadership from the highest levels of government, capitalizing on current desire for change and balancing the incentives and disincentives for compliance with financial reporting requirements.

80. **The ROSC team has prepared detailed "concordance tables"³⁰ that provide insight as to the current status of the alignment of Kosovo legislation with the EU's Accounting and Statutory Audit Directives.** The tables show that many improvements are required. Examples of areas where alignment has not been achieved include the following:

- Enforcement of the requirement to publish financial statements;
- Definition, monitoring and enforcement of professional pre-qualification experience for statutory auditors;
- Definition of the role of professional associations in the financial reporting system – the Law on Financial Reporting envisages the possibility of more than one accounting association; however, should any such new association comprise both accountants and auditors (like SCAAK), this would likely lead to regulatory inefficiencies and lapses in Kosovo's unsettled regulatory environment;
- Establishment of a public register of statutory auditors and audit firms, containing all the information required by the EU's Statutory Audit Directive;
- Establishment of a functioning public oversight system for the audit profession. In this context, a working balance between the roles of SCAAK and the KFRC should be sought and achieved. A viable option remains, on a temporary basis, giving SCAAK a role in quality assurance review, subject to public oversight by KFRC;
- Implementation of the quality assurance program currently being developed with the assistance of NIVRA; and
- Review of the current criteria concerning the obligation to have a statutory audit.

81. **The legal requirement to publish financial statements should be implemented.** This requirement has existed since 2001 but never has been implemented. No financial statements, with the exceptions of financial institutions and some POEs, are publicly available. This needs to be addressed. In particular, a formal legal requirement that is not implemented does not constitute alignment with the European legislation and this will certainly be noted by any future European Commission review.

³⁰ These concordance tables can be found in Annex 3.

82. **With regard to accounting standards, building on the progress achieved since 2006, KFRC should:**

- ***Establish or adopt accounting standards applicable to SMEs and micro-enterprises***; under the existing interpretation of the law, these entities are expected to apply full IFRS from 2013 – this is not reasonable and will not succeed. KAS or the IFRS for SMEs should be considered for SMEs, with income tax reporting (e.g., summary of receipts and disbursements) for micro-entities;
- ***Monitor the application of IFRS***, in both the financial and non-financial sectors, for financial institutions, this should be carried out in close cooperation with the CBK;
- ***Consider entering into a cooperative arrangement with the Albanian Accounting Council***, including consultations on enforcement;

83. **The KFRC should deepen its cooperation with the Institute of Authorized Chartered Auditors of Albania (IEKA), on translation and adoption of ISA, including consultations on enforcement;**

84. **With regard to the Monitoring and Enforcement of Accounting and Auditing Standards, it is recommended that:**

- The KFRC and the CBK increase their capacity by employing more staff members who are familiar with IFRS. In order to fulfill their role as agencies regulating accounting standards, the KFRC and the CBK should recruit additional staff with extensive knowledge and experience of IFRS. The KFRC's embedding within the public sector should be reconsidered, since it may limit the KFRC's ability to increase its professional capacity. Consideration should be given to making the KFRC a self-financing regulatory agency;
- As in 2006, it is recommended that all statutory auditors and audit firms should be subject to a system of quality assurance, subject to public oversight. The KFRC is formally responsible for quality assurance but it has neither the human nor the professional capacity to perform this task. At present, the only available capacity exists within the profession, i.e., SCAAK. The oversight model should consider which mechanism would function best in Kosovo's current circumstances. For example, the model of supervised self-regulation, where the investigation function is performed by SCAAK, but the evaluation of the findings and sanctions could be made by KFRC might be considered. Such system may not be immediately fully aligned with the *acquis*, particularly with the Commission's Recommendation of 6 May 2008, (2008/362/EC) on external quality assurance for statutory auditors and audit firms selected to audit public interest entities. However, including professionals would help the KFRC to start with a program of inspections and the involvement of the KFRC could then increase over time, as its own professional capacity develops. Another possibility is to use Albanian inspectors in Kosovo, although even this option would face the financing question. In any case, as the 10-year history of the KBSFR demonstrated, the status quo does not work and the configuration needs a change to make it work. The KFRC has taken first steps in this context, including setting up the Quality Assurance Committee and initiating cooperation with its Croatian counterpart. It is expected that the first Quality Assurance cycle will start in 2015.

- The CBK and the KFRC should revisit their audit license renewal policies with the objective of easing the existing regulatory burden and using criteria such as CPD compliance, quality review results, etc. instead.

85. With regard to the Development of the Accounting and Auditing Profession, it is recommended that:

- The KFRC upgrade the register of auditors and audit firms (currently, the register is an Excel spreadsheet with no indication as to the frequency of updates) to align it with the requirements of the Statutory Audit Directive;
- SCAAK increase its capacity in relation to quality assurance; as indicated above, this should be done in coordination with the KFRC;
- Practical experience requirement be brought into line with IFAC requirements; the present requirements for practical experience have been reviewed and changes are being implemented to bring the practical experience requirement in line with IES 5.³¹

86. With regard to Education and Training, it is recommended that:

- SCAAK and the University sector re-engage on the issue of enhancing access to and the contents of quality accounting education at universities. It is wasteful for all stakeholders if university accounting graduates receive no exemptions in the SCAAK certification program. At the same time, SCAAK needs to obtain assurances that the university program provides an appropriate foundation for future professional accountants.
- SCAAK further enhance its CPD program. There are still many observed deficiencies in the work of sole practitioners and small practices. The focus of enhanced CPD should be on those areas where the deficiencies have been observed, for example:
 - ISA and IFRS;
 - Audit documentation and audit file;
 - Obtaining sufficient appropriate audit evidence;
 - Audit risk assessment and its impact on audit strategy and planning;
 - Forming an audit opinion and communication with the client, etc.

³¹ <http://www.ifac.org/sites/default/files/publications/files/ies-5-practical-experienc.pdf>

Annex 1. Summary of the Review of Financial Statements

ISA

Qualified opinion

- In general, audit reports were qualified because the auditors were unable to obtain sufficient appropriate audit evidence. In some instances, however, the basis for the qualification did not appear to be appropriately disclosed and supported.

Emphasis of matter

- Emphasis of matter paragraphs were the result of uncertainty involving valuation, ownership, future liability and contingent tax liability.

IFRS

Intangible assets

- Two identified instances of departure from the standard involved classification and research and development costs treatment.

Functional and presentation currency

- Functional and presentation currency was not disclosed (IAS 21.8., "*The Effects of Changes in Foreign Exchange Rates*")

Credit risk

- Incomplete disclosure in two sets of financial statements (trade receivables and impaired loans)

Going concern

- In seven instances, the required management disclosure on going concern was missing.

Borrowings

- One case of unclear measurement method of the relevant interest rate.

Segment reporting

- Incomplete disclosures identified relating to revenue streams and segment assets and liabilities.

Interest

- Inadequate disclosures, in two instances, of effective interest rate and interest revenue recognition.

Impairment

- Inadequate disclosures, in two instances, of the asset impairment policy and discounting of impaired loans policy.

Leases

- Incomplete disclosures of operating lease, operating lease income, other lease-related information.

Adoption of new and revised International Financial Reporting Standards

- Incomplete disclosure of the likely effects of IFRS9 '*Financial Instruments*' on classification and measurement.

Presentation

- Incomplete disclosure of financial instruments, specifically IAS 32.42., IAS 2.36.

Related parties

- Three instances of incomplete related party disclosures identified

Risk management

- Incomplete disclosure in the Annual Report identified in one instance

Hedging

- One instance identified of derivatives used to hedge risks but without hedge accounting.

Statement of changes in equity

- Described in one instance as "Consolidated statement of cash flows for the period."

Borrowings

- One instance of incomplete disclosure in relation to covenants breached by the borrower (IFRS 7.18) – no disclosure of amounts involved

Deferred Taxes

- One instance of failing to present deferred tax

Liability Adequacy Tests (LAT) (IFRS 4.15.)

- Required disclosure not provided in one instance

Concentration of insurance risk

- Required disclosure not provided in one instance

NATIONAL STANDARDS (KAS)

Revenue

- One instance of incomplete disclosure, no policy on recognition and measurement.

Impairment

- One instance of no disclosure on impairment of assets, also no evidence if the entity has assessed whether any asset may be impaired.

Leases

- No leases disclosed in one instance. The entity rents the office and warehouse space.

Financial Instruments

- The company has disclosed cash, accounts receivable and payable but NO policy on presentation, recognition or measurement is disclosed.

Annex 2: Status of the Recommendation of the 2006 ROSC A&A

Recommendation	Status
It is recommended that a multi-disciplinary group of private and public stakeholders be established.	Not established.
Prepare a "transposition table" showing for each relevant provision of the <i>acquis communautaire</i> how corresponding Kosovo legal instruments implement the provision.	Transposition (concordance) table not completed (Para 80).
Drawing on this analysis, the group should contribute to the proposed amendments to the Law on Financial Reporting in order to align it more closely with the [Audit] Directive.	The new law was prepared without the concordance table; numerous instances of non-alignment with <i>the acquis</i> remain (Para 80).
Restructure the institutional framework and achieve a working balance between the roles of SCAAK and the KBSFR.	Partially completed (SCAAK is developing a quality assurance review program, Paras 49-56).
A requirement for public interest entities to present their financial statements in conformity with IFRS.	Completed. IFRS will be required from 2013 (Para 57).
A requirement for enterprises that are not public interest entities other than micro enterprises to present their financial statements in conformity with KAS.	Partially Completed. According to the present law, the non-PIE companies will be required to apply IFRS, IFRS for SMEs are being considered (Para 57).
A requirement for legal entity and/or consolidated financial statements to be audited only when there is a public interest for such an audit, irrespective of the entity's legal form.	Partially completed; the new law narrowed the mandatory audit requirement (Para 27, 30).
A requirement for all statutory audits to be conducted in compliance with ISA.	Completed (Para 58).
A requirement for public interest entities (short term) and other corporations (longer term) to make their audited legal entity (and consolidated) financial statements, including the notes to the financial statements, readily available to the public within a reasonable period after the balance sheet date.	Not completed (Para 81).
Reach agreement with the International Accounting	No longer applicable (both

Recommendation	Status
Standards Committee Foundation (IASCF) and the institutions responsible for the translation of the Albanian and Serbian language versions of the standards.	Albanian and Serbian translations exist in Albania and Serbia, para 84).
The KBSFR maintain KAS as a simplified financial reporting system for application in entities that do not meet the definition of a public interest entity. Alternatively, Kosovo could review the ongoing project of the International Accounting Standards Board (IASB) on "Accounting Standards for SMEs."	Not completed; the law does not consider KAS as accounting standards applicable in Kosovo, even though still requires the KFRC to maintain it. The IFRS for SMEs is not currently applicable in Kosovo (Para 84).
BPK [should] revisit the relationship between prudential and general purpose financial reporting in the financial sector. BPK should develop prudential filters for regulatory capital.	<u>Completed</u> (Para 62).
Reach agreement with IFAC and the institutions responsible for the translation of the Albanian and Serbian language versions of the standards (...).	No longer applicable as both Albanian and Serbian translations exist in Albania and Serbia (Para 82,83).
More direct action [should] be taken with regard to the monitoring and enforcement of accounting and reporting standards by public interest entities.	Not completed (Para 24, 25)
The KBSFR and BPK should increase their human resources by employing more staff members who are familiar with IFRS.	Partially completed by the CBK (Para 64).
The BPK should seek to strengthen its relationship with statutory auditors to mutual advantage. While the objectives of supervisors and auditors are different, there are many areas where the work of the supervisors and of the external auditor can be useful to each other.	<u>Partially completed</u> (Para 65).
(...) BPK may contemplate requiring the statutory auditor to carry out specific assignments or to issue special reports to assist the supervisors in discharging their supervisory functions (...).	Not completed; not considered a priority.
All statutory auditors and audit firms should be subject to a system of quality assurance subject to public oversight.	Partially completed – the law provides for oversight of auditors; however, it has not been implemented (Para 41, 46).
Kosovo should establish an effective system of	Partially completed – the law

Recommendation	Status
investigations and sanctions to detect, correct and prevent inadequate execution of the statutory audit.	provides for oversight of auditors; however, it has not been implemented (Para 41, 46).
Also, every measure taken or sanction imposed on statutory auditors and audit firms should be appropriately disclosed to the public. As for the quality assurance system, the system may draw upon existing practices in EU Member States and IFAC SMO 6, Investigation and Discipline (...).	Not completed (Para 41, 46).
All statutory auditors and audit firms should be members of SCAAK.	Partially completed (Para 43; firm membership not required, only license by the KFRC).
SCAAK (or the KBSFR) should establish a public electronic register of statutory auditors and audit firms so that interested parties can determine rapidly whether a statutory auditor or an audit firm has been approved, etc. This will be facilitated through registration in a public electronic register.	Partially completed ; the register exists and is public but is not regularly updated and does not contain the information required by the Audit Directive (Para 80).
The capacity of SCAAK should be increased so as to enable it to make a more effective contribution to the audit profession in Kosovo.	Partially completed; SCAAK offers some advice to its members; some guidance for small audit firms has been developed.
Practical experience should be brought in line with IFAC requirements. Mentorship and supervision have to be promoted. It is necessary to review the present requirements for practical experience and to bring them in line with IES 5.	Partially completed ; mentorship and supervision have not been implemented (Para 53, 86).
Emphasis should be given to developing an educational continuum from university through to the continuing professional development of A&A professionals (...).	Partially completed ; SCAAK program complies with IES but no integration with university education has taken place (Para 47, 48, 86).
The university curriculum and educational material should be updated.	Partially completed , although it is not clear to what extent the new materials are used (Para 47, 48).
Universities will need to work closely with the KBSFR, SCAAK, and the business community to develop degree programs appropriate to the developing needs of the economy.	Not completed (Para, 47, 48, 86).
SCAAK should also ensure that candidates for the	Partially completed ; content of the

Recommendation	Status
audit qualification receive sufficient and relevant practical experience prior to the award of the qualification.	practical experience requirement not established (Para 53, 86).
Having established a robust basis for qualification it is essential that continued membership of SCAAK and retaining the right to conduct audits (i.e., the license issued by the KBSFR) is dependent upon completing a minimum level of CPD. Such CPD needs to be monitored by SCAAK (...).	<u>Completed (Para 55).</u>

Annex 3: Concordance Tables (DRAFT)

Draft Concordance Table - the Fourth Directive

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
Preamble	Whereas annual accounts must give a true and fair view of a company's assets and liabilities, financial position and profit or loss	No enunciation of this in the AA Law but article 5 of the law states compliance obligatory with international standards. Articles 14 and 15 refer to compliance with EU Acquis as part of the KFRC and its commissions' mandates.	There is no reference in the law to the need for financial statements to provide a true and fair value.
Preamble	Whereas, however, derogations may be granted for certain companies of minor economic or social importance; Certain derogations may likewise be granted in this area for small and medium-sized companies	<p>Article 5 of the law states that types of business organizations regulated under the law i.e. large, medium and small organizations registered as limited liability and shareholders companies shall comply with IFRS which is not required for companies registered under different types i.e. Personal Enterprises and General Partnership.</p> <p>For Micro Enterprises, the law states that "Criteria for accounting and reporting applicable to micro enterprises will be regulated by KKRF in order to minimize administrative burden on the micro enterprises.</p>	

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
		No audits are required for small and micro business organizations as defined under article 4 of this law.	
Article 1	The coordination measures prescribed by this Directive shall apply to the laws, regulations and administrative provisions of the Member States relating to the following types of companies: public companies limited by shares or by guarantee, private companies limited by shares or by guarantee; partnerships, limited partnerships, unlimited companies.	Law on business companies 02/L-123. There is no reference in this law to public companies limited or unlimited. Types of organizations as per article 4 of the law are personal business enterprise, a general partnership, a limited partnership, a limited liability company or a joint stock company.	No specific mentioning in the Law of types of companies under the AAL. Reference made in article five of the law is only to limited liability companies and shareholders companies.
Article 1	Pending subsequent coordination, the Member States need not apply the provisions of this Directive to banks and other financial institutions or to insurance companies	No reference in the Law to this matter	No reference in the Law to this matter.
Article 2	1. The annual accounts shall comprise the balance sheet, the profit and loss account	Kosovo Law on Accounting Financial Reporting and Audit states in article that annual	The current law refers to "Statement of Revenue" as

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	<p>and the notes on the accounts. These documents shall constitute a composite whole.</p> <p>Member States may permit or require the inclusion of other statements in the annual accounts in addition to the documents referred to in the first subparagraph.</p> <p>2. They shall be drawn up clearly and in accordance with the provisions of this Directive.</p> <p>3. The annual accounts shall give a true and fair view of the company's assets, liabilities, financial position and profit or loss.</p> <p>4. Where the application of the provision of this Directive would not be sufficient to give a true and fair view within the meaning of paragraph 3, additional information must be given.</p> <p>5. Where in exceptional cases the application of a provision of this Directive is incompatible with the obligation laid</p>	<p>financial statements shall contain a)Balance Sheet, b) Statement of Revenue, c) Statement of capital changes (equity), d) statement of cash flow and e) accompanying document of financial statements.</p> <p>The law also states that the structure and content shall be regulated by a sub-normative act.</p>	<p>part of the annual financial statements as opposed to "profit and loss account" as required by the forth directive.</p> <p>The law doesn't state clearly that the financial statements must give a true and fair value of the company's assets, liabilities, financial position and profit and loss as required by the forth directive.</p>

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	<p>down in paragraph 3, that provision must be departed from in order to give a true and fair view within the meaning of paragraph 3. Any such departure must be disclosed in the notes on the accounts together with an explanation of the reasons for it and a statement of its effect on the assets, liabilities, financial position and profit or loss. The Member States may define the exceptional cases in question and lay down the relevant special rules.</p> <p>6. The Member States may authorize or require the disclosure in the annual accounts of other information as well as that which must be disclosed</p>		
Article 3	<p>The layout of the balance sheet and of the profit and loss account, particularly as regards the form adopted for their presentation, may not be changed from one financial year to the next.</p> <p>Departures from this principle shall be</p>	Article 9 of the Law states that the structure and content shall be regulated by a sub-normative act but it doesn't explicitly refer to the layout of financial statements required.	Kosovo Accounting and Financial Reporting Law doesn't refer to the layout of financial statements.

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	permitted in exceptional cases. Any such departure must be disclosed in the notes on the accounts together with an explanation of the reasons therefore		
Article 4	<p>1. In the balance sheet and in the profit and loss account the items prescribed in Articles 9, 10 and 23 to 26 must be shown separately in the order indicated. A more detailed subdivision of the items shall be authorized provided that the layouts are complied with. New items may be added provided that their contents are not covered by any of the items prescribed by the layouts. Such subdivision or new items may be required by the Member States.</p> <p>2. The layout, nomenclature and terminology of items in the balance sheet and profit and loss account that are preceded by Arabic numerals must be adapted where the special nature of an undertaking so requires. Such adaptations may be required by the Member States of</p>	No reference in the Law to this matter	

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	<p>undertakings forming part of a particular economic sector.</p> <p>3. The balance sheet and profit and loss account items that are preceded by Arabic numerals may be, combined where:</p> <p>(a) they are immaterial in amount for the purposes of Article 2 (3); or</p> <p>(b) such combination makes for greater clarity, provided that the items so combined are dealt with separately in the notes on the accounts. Such combination may be required by the Member States.</p> <p>4. In respect of each balance sheet and profit and loss account item the figure relating to the corresponding item for the preceding financial year must be shown. The Member States may provide that, where these figures are not comparable, the figure for the preceding financial year must be adjusted. In any case, non-comparability and any adjustment of the figures must be disclosed in the notes on</p>		

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	<p>the accounts, with relevant comments.</p> <p>5. Save where there is a corresponding item for the preceding financial year within the meaning of paragraph 4, a balance sheet or profit and loss account item for which there is no amount shall not be shown.</p> <p>6. Member States may permit or require the presentation of amounts within items in the profit and loss account and balance sheet to have regard to the substance of the reported transaction or arrangement. Such permission or requirement may be restricted to certain classes of company and/or to consolidated accounts as defined in the Seventh</p> <p>Council Directive 83/349/EEC of 13 June 1983 on consolidated accounts (1)</p>		
Article 5	1. By way of derogation from Article 4 (1) and (2), the Member States may prescribe special layouts for the annual accounts of	No reference in the Law to this matter	

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	<p>investment companies and of financial holding companies provided that these layouts give a view of these companies equivalent to that provided for in Article 2 (3).</p> <p>2. For the purposes of this Directive, 'investment companies' shall mean only:</p> <p>(a) those companies the sole object of which is to invest their funds in various securities, real property and other assets with the sole aim of spreading investment risks and giving their shareholders the benefit of the results of the management of their assets;</p> <p>(b) those companies associated with investment companies with fixed capital if the sole object of the companies so associated is to acquire fully paid shares issued by those investment companies without prejudice to the provisions of Article 20 (1) (h) of Directive 77/91/EEC (2).</p>		

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	3. For the purposes of this Directive, 'financial holding companies' shall mean only those companies the sole object of which is to acquire holdings in other undertakings, and to manage such holdings and turn them to profit, without involving themselves directly or indirectly in the management of those undertakings, the foregoing without prejudice to their rights as shareholders. The limitations imposed on the activities of these companies must be such that compliance with them can be supervised by an administrative or judicial authority.		
Article 6	The Member States may authorize or require adaptation of the layout of the balance sheet and profit and loss account in order to include the appropriation of profit or the treatment of loss.	No reference in the Law to this matter	
Article 7	Any set-off between asset and liability items, or between income and expenditure	No reference in the Law to this matter	The law doesn't make a clear reference that set offs are

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	items, shall be prohibited		prohibited.
Articles 8-10	In these articles suggested layouts for the balance sheet are set out	According to article 5 of the Law financial statements shall be prepared in accordance with IFRS	There are no suggested layouts referred to in the Law
Article 11	<p>The Member States may permit companies which on their balance sheet dates do not exceed the limits of two of the following criteria:</p> <ul style="list-style-type: none"> — balance sheet total: EUR 4 400 000, — net turnover: EUR 8 800 000, — average number of employees during the financial year: 50 <p>to draw up abridged balance sheets showing only those items preceded by letters and roman numerals in Articles 9 and 10, disclosing separately the information required in brackets in D (II) under 'Assets' and C under 'Liabilities' in Article 9 and in D (II) in Article 10, but in</p>	No reference in the law to this matter.	There is no specific reference in the Law to this matter.

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	total for each		
Article 12	<p>1. Where on its balance sheet date, a company exceeds or ceases to exceed the limits of two of the three criteria indicated in Article 11, that fact shall affect the application of the derogation provided for in that Article only if it occurs in two consecutive financial years.</p> <p>2. For the purposes of translation into national currencies, the amounts in European units of account specified in Article 11 may be increased by not more than 10 %.</p> <p>3. The balance sheet total referred to in Article 11 shall consist of the assets in A to E under 'Assets' in the layout prescribed in Article 9 or those in A to E in the layout in Article 10</p>	No reference in the law to this matter.	The Law on Accounting, Financial Reporting and Audit doesn't stipulate that the evaluation of company size should be based on relevant indicators in two consecutive periods.
Article 13	1. Where an asset or liability relates to more than one layout item, its relationship to other items must be disclosed either	No reference in the law to this matter.	The Law doesn't explicitly refer to this matter. However, IFRS endorsed by the law

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	<p>under the item where it appears or in the notes on the accounts, if such disclosure is essential to the comprehension of the annual accounts.</p> <p>2. Own shares and shares in affiliated undertakings may be shown only under the items prescribed for that purpose</p>		resolves disclosure issues.
Article 14	<p>All commitments by way of guarantee of any kind must, if there is no obligation to show them as liabilities, be clearly set out at the foot of the balance sheet or in the notes on the accounts, and a distinction made between the various types of guarantee which national law recognizes; specific disclosure must be made of any valuable security which has been provided.</p> <p>Commitments of this kind existing in respect of affiliated undertakings must be shown separately</p>	No reference in the law to this matter.	The Law doesn't explicitly refer to this matter. However, IFRS endorsed by the law resolves disclosure issues.

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
Article 15	<p>1. Whether particular assets are to be shown as fixed assets or current assets shall depend upon the purpose for which they are intended.</p> <p>2. Fixed assets shall comprise those assets which are intended for use on a continuing basis for the purposes of the undertaking's activities.</p> <p>3. (a) Movements in the various fixed asset items shall be shown in the balance sheet or in the notes on the accounts. To this end there shall be shown separately, starting with the purchase price or production cost, for each fixed asset item, on the one hand, the additions, disposals and transfers during the financial year and, on the other, the cumulative value adjustments at the balance sheet date and the rectifications made during the financial year to the value adjustments of previous financial years. Value adjustments shall be shown either in the balance sheet, as clear deductions from the relevant items, or in the notes on the</p>	No reference in the law to this matter.	There is no reference in the law to this matter.

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	accounts.		
Article 16	Rights to immovables and other similar rights as defined by national law must be shown under 'Land and buildings'	No reference in the law to this matter.	There is no reference in the law to this matter.
Article 17	For the purposes of this Directive, participating interest shall mean rights in the capital of other undertakings, whether or not represented by certificates, which, by creating a durable link with those undertakings, are intended to contribute to the company's activities. The holding of part of the capital of another company shall be presumed to constitute a participating interest where it exceeds a percentage fixed by the Member States which may not exceed 20 %	No reference in the law to this matter.	No reference in the law to this matter. The provisions included in this article are dealt with in the IFRSs.
Article 18	Expenditure incurred during the financial year but relating to a subsequent financial year, together with any income which, though relating to the financial year in question, is not due until after its expiry	No reference in the law to this matter.	There is no reference in the law to this matter.

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	must be shown under 'Prepayments and accrued income'. The Member States may, however, provide that such income shall be included in 'Debtors'. Where such income is material, it must be disclosed in the notes on the accounts		
Article 19	Value adjustments shall comprise all adjustments intended to take account of reductions in the values of individual assets established at the balance sheet date whether that reduction is final or not	No reference in the law to this matter.	No reference in the law to this matter. The provisions included in this article are dealt with in the IFRSs.
Article 20	1. Provisions are intended to cover liabilities the nature of which is clearly defined and which at the date of the balance sheet are either likely to be incurred, or certain to be incurred but uncertain as to amount or as to the date on which they will arise. 2. The Member States may also authorize the creation of provisions intended to cover charges which have their origin in	No reference in the law to this matter.	No reference in the law to this matter. The provisions included in this article are dealt with in the IFRSs.

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	<p>the financial year under review or in a previous financial year, the nature of which is clearly defined and which at the date of the balance sheet are either likely to be incurred, or certain to be incurred but uncertain as to amount or timing.</p> <p>3. Provisions may not be used to adjust the values of assets</p>		
Article 21	<p>Income receivable before the balance sheet date but relating to a subsequent financial year, together with any charges which, though relating to the financial year in question, will be paid only in the course of a subsequent financial year, must be shown under 'Accruals and deferred income'. The Member States may, however, provide that such charges shall be included in 'Creditors'. Where such charges are material, they must be disclosed in the notes on the accounts</p>	No reference in the law to this matter.	<p>No reference in the law to this matter.</p> <p>There is no reference in the law to this matter.</p>
Articles 23-	In these articles the suggested layouts for	No reference in the law to this matter.	There is no reference in the

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
26	the income statement are set out		law to the layouts of income statements. However, the law refers under article 9 that the structure and contents of financial statements shall be regulated by sub-normative act issued by the minister of finance.
Article 27	<p>The Member States may permit companies which on their balance sheet dates do not exceed the limits of two of the three following criteria:</p> <ul style="list-style-type: none"> — balance sheet total: EUR 17 500 000, — net turnover: EUR 35 000 000, — average number of employees during the financial year: 250 <p>to adopt layouts different from those prescribed in Articles 23 to 26 within the following limits:</p> <p>(a) in Article 23: 1 to 5 inclusive may be</p>	No reference in the law to this matter.	There is no reference in the law to this matter.

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	<p>combined under one item called 'Gross profit or loss';</p> <p>(b) in Article 24: A (1), A (2) and B (1) to B (4) inclusive may be combined under one item called 'Gross profit or loss';</p> <p>(c) in Article 25: (1), (2), (3) and (6) may be combined under one item called 'Gross profit or loss';</p> <p>(d) in Article 26, A (1), B (1) and B (2) may be combined under one item called 'Gross profit or loss'.</p> <p>Article 12 shall apply</p>		
Article 28	The net turnover shall comprise the amounts derived from the sale of products and the provision of services falling within the company's ordinary activities, after deduction of sales rebates and of value added tax and other taxes directly linked to the turnover	No reference in the law to this matter.	There is no reference in the law to this matter.

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
Article 29	<p>1. Income and charges that arise otherwise than in the course of the company's ordinary activities must be shown under 'Extraordinary income and extraordinary charges'.</p> <p>2. Unless the income and charges referred to in paragraph 1 are immaterial for the assessment of the results, explanations of their amount and nature must be given in the notes on the accounts. The same shall apply to income and charges relating to another financial year</p>	No reference in the law to this matter.	There is no reference in the law to this matter.
Article 30	<p>The Member States may permit taxes on the profit or loss on ordinary activities and taxes on the extraordinary profit or loss to be shown in total as one item in the profit and loss account before 'Other taxes not shown under the above items'. In that case, 'Profit or loss on ordinary activities after taxation' shall be omitted from the layouts prescribed in Articles 23 to 26.</p> <p>Where this derogation is applied,</p>	No reference in the law to this matter.	There is no reference in the law to this matter.

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	companies must disclose in the notes on the accounts the extent to which the taxes on the profit or loss affect the profit or loss on ordinary activities and the 'Extraordinary profit or loss'		
Article 31	<p>Valuation Rules</p> <p>1. The Member States shall ensure that the items shown in the annual accounts are valued in accordance with the following general principles:</p> <p>(a) the company must be presumed to be carrying on its business as a going concern;</p> <p>(b) the methods of valuation must be applied consistently from one financial year to another;</p> <p>(c) valuation must be made on a prudent basis, and in particular:</p> <p>(aa) only profits made at the balance sheet date may be included,</p>	Other than what is stated under Article 7 of the law "Business organizations, subject to this law, must verify at least once a year the existence and evaluation of assets, liabilities, and capital through the stocktaking of these elements and their supporting evidence through the stocktaking process." There is no reference in the Law to valuation rules.	There is no reference in the law to valuation rules.

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	<p>(bb) account must be taken of all liabilities arising in the course of the financial year concerned or of a previous one, even if such liabilities become apparent only between the date of the balance sheet and the date on which it is drawn up,</p> <p>(cc) account must be taken of all depreciation, whether the result of the financial year is a loss or a profit;</p> <p>(d) account must be taken of income and charges relating to the financial year, irrespective of the date of receipt or payment of such income or charges;</p> <p>(e) the components of asset and liability items must be valued separately;</p> <p>(f) the opening balance sheet for each financial year must correspond to the closing balance sheet for the preceding financial year.</p> <p>1a. In addition to those amounts recorded pursuant to paragraph (1) (c)(bb), Member</p>		

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	<p>States may permit or require account to be taken of all foreseeable liabilities and potential losses arising in the course of the financial year concerned or of a previous one, even if such liabilities or losses become apparent only between the date of the balance sheet and publication date;</p> <p>2. Departures from these general principles shall be permitted in exceptional cases. Any such departures must be disclosed in the notes on the accounts and the reasons for them given together with an assessment of their effect on the assets, liabilities, financial position and profit or loss</p>		
Articles 33-39	Valuation articles	NA	There is no reference in the law to how countries should value their current and non-current assets.
Article 40	1. The Member States may permit the purchase price or production cost of	No reference in the law to this matter.	There is no reference to this matter

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	<p>stocks of goods of the same category and all fungible items including investments to be calculated either on the basis of weighted average prices or by the 'first in, first out' (FIFO) method, the 'last in, first out' (LIFO) method, or some similar method.</p> <p>2. Where the value shown in the balance sheet, following application of the methods of calculation specified in paragraph 1, differs materially, at the balance sheet date, from the value on the basis of the last known market value prior to the balance sheet date, the amount of that difference must be disclosed in total by category in the notes on the accounts</p>		
Article 41	1. Where the amount repayable on account of any debt is greater than the amount received, the difference may be shown as an asset. It must be shown separately in the balance sheet or in the notes on the accounts.	No reference in the law to this matter.	There is no reference to this matter

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	2. The amount of this difference must be written off by a reasonable amount each year and completely written off no later than the time of repayment of the debt		
Article 42	Provisions may not exceed in amount the sums which are necessary. The provisions shown in the balance sheet under 'Other provisions' must be disclosed in the notes on the accounts if they are material	No reference in the law to this matter.	There is no reference to this matter
Article 43	<p>Contents of the notes on the accounts</p> <p>1. In addition to the information required under other provisions of this Directive, the notes on the accounts must set out information in respect</p> <p>of the following matters at least:</p> <p>(1) the valuation methods applied to the various items in the annual accounts, and the methods employed in calculating the value adjustments. For items included in the annual accounts which are or were</p>	No reference in the law to this matter.	There is no reference to this matter

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	<p>originally expressed in foreign currency, the bases of conversion used to express them in local currency must be disclosed;</p> <p>(2) the name and registered office of each of the undertakings in which the company, either itself or through a person acting in his own name but on the company's behalf, holds at least a percentage of the capital which the Member States cannot fix at more than 20 %, showing the proportion of the capital held, the amount of capital and reserves, and the profit or loss for the latest financial year of the undertaking concerned for which accounts have been adopted. This information may be omitted where for the purposes of Article 2 (3) it is of negligible importance only.</p> <p>(3) the number and the nominal value or, in the absence of a nominal value, the accounting par value of the shares subscribed during the financial year within the limits of an authorized capital, without prejudice as far as the amount of</p>		

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	<p>this capital is concerned to Article 2 (1) (e) of Directive 68/151/EEC or to Article 2 (c) of Directive 77/91/EEC;</p> <p>(4) where there is more than one class of shares, the number and the nominal value or, in the absence of a nominal value, the accounting par value for each class;</p> <p>(5) the existence of any participation certificates, convertible debentures or similar securities or rights, with an indication of their number and the rights they confer;</p> <p>(6) amounts owed by the company becoming due and payable after more than five years as well as the company's entire debts covered by valuable security furnished by the company with an indication of the nature and form of the security. This information must be disclosed separately for each creditors item, as provided for in the layouts</p>		

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	prescribed in Articles 9, 10 and 10a		
Article 43	<p>(7) the total amount of any financial commitments that are not included in the balance sheet, in so far as this information is of assistance in assessing the financial position. Any commitments concerning pensions and affiliated undertakings must be disclosed separately;</p> <p>(7a) the nature and business purpose of the company's arrangements that are not included in the balance sheet and the financial impact on the company of those arrangements, provided that the risks or benefits arising from such arrangements are material and in so far as the disclosure of such risks or benefits is necessary for assessing the financial position of the company.</p> <p>Member States may permit the companies referred to in Articleicle 27 to limit the information required to be disclosed by this point to the nature and business</p>	No reference in the law to this matter.	There is no reference to this matter

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	<p>purpose of such arrangements;</p> <p>(7b) transactions which have been entered into with related parties by the company, including the amount of such transactions, the nature of the related party relationship and other information about the transactions necessary for an understanding of the financial position of the company, if such transactions are material and have not been concluded under normal market conditions. Information about individual transactions may be aggregated according to their nature except where separate information is necessary for an understanding of the effects of related party transactions on the financial position of the company.</p> <p>Member States may permit the companies referred to in Article 27 to omit the disclosures prescribed in this point unless those companies are of a type referred to in Article 1(1) of Directive 77/91/EEC, in which case Member States may limit disclosure to, as a minimum, transactions</p>		

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	<p>entered into directly or indirectly between:</p> <p>(i) the company and its major shareholders,</p> <p>And</p> <p>(ii) the company and the members of the administrative, management and supervisory bodies.</p> <p>Member States may exempt transactions entered into between two or more members of a group provided that subsidiaries which are party to the transaction are wholly owned by such a member. 'Related party' has the same meaning as in international accounting standards adopted in accordance with Regulation (EC) No 1606/2002</p>		
Article 44	1. Member States may permit the companies referred to in Article 11 to draw up abridged notes on their accounts	No reference in the law to this matter.	There is no reference to this matter

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	<p>without the information required in Article 43(1)(5) to (12), (14)(a) and (15). However, the notes must disclose the information specified in Article 43(1)(6) in total for all the items concerned.</p> <p>2. Member States may also permit the companies referred to in paragraph 1 to be exempted from the obligation to disclose in the notes on their accounts the information prescribed in Article 15 (3) (a) and (4), Articles 18, 21 and 29 (2), the second subparagraph of Article 30, Article 34 (2), Article 40 (2) and the second subparagraph of Article 42.</p> <p>3. Article 12 shall apply.</p>		
Article 45	<p>1. The Member States may allow the disclosures prescribed in Article 43 (1) (2):</p> <p>(a) to take the form of a statement deposited in accordance with Article 3 (1) and (2) of Directive 68/151/EEC;</p>	No reference in the law to this matter.	There is no reference to this matter

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	<p>this must be disclosed in the notes on the accounts;</p> <p>(b) to be omitted when their nature is such that they would be seriously prejudicial to any of the undertakings to which Article 43 (1) (2) relates.</p> <p>The Member States may make such omissions subject to prior administrative or judicial authorization. Any such omission must be disclosed in the notes on the accounts.</p> <p>2. Paragraph 1(b) shall also apply to the information specified in Article 43(1)(8).</p> <p>The Member States may permit the companies referred to in Article 27 to omit disclosure of the information specified in Article 43(1)(8). The Member States may also permit the companies referred to in Article 27 to omit disclosure of the information</p>		

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	specified in Article 43(1)(15), provided that such information is delivered to the public oversight system referred to in Article 32 of Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audit of annual accounts and consolidated accounts (1) when requested by such a public oversight system.		
Article 46	<p>Contents of the annual report</p> <p>1. (a) The annual report shall include at least a fair review of the development and performance of the company's business and of its position, together with a description of the principal risks and uncertainties that it faces. The review shall be a balanced and comprehensive analysis of the development and performance of the company's business and of its position, consistent with the size and complexity of the business;</p>	Article 9 of the AAL states that The structure and content of annual financial statements shall be regulated by a sub-normative act issued by the Minister of Finance upon proposal of KCFR.	There is no reference to this matter

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	<p>(b) To the extent necessary for an understanding of the company's development, performance or position, the analysis shall include both financial and, where appropriate, non-financial key performance indicators relevant to the particular business, including information relating to environmental and employee matters;</p> <p>(c) In providing its analysis, the annual report shall, where appropriate, include references to and additional explanations of amounts reported in the annual accounts.</p> <p>2. The report shall also give an indication of:</p> <p>(a) any important events since the end of the financial year;</p> <p>(b) the company's likely future development;</p>		

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	<p>(c) activities in the field of research and development;</p> <p>(d) the information concerning acquisitions of own shares prescribed by Article 22 (2) of Directive 77/91/EEC.</p> <p>(e) the existence of branches of the company;</p> <p>(f) in relation to the company's use of financial instruments and where material for the assessment of its assets, liabilities, financial position and profit or loss,</p> <p>— the company's financial risk management objectives and policies, including its policy for hedging each major type of forecasted transaction for which hedge accounting is used, and</p> <p>— the company's exposure to price risk, credit risk, liquidity risk and cash flow risk.</p>		

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	<p>3. Member States may waive the obligation on companies covered by Article 11 to prepare annual reports, provided that the information referred to in Article 22 (2) of Directive 77/91/EEC concerning the acquisition by a company of its own shares is given in the notes to their accounts.</p> <p>4. Member States may choose to exempt companies covered by Article 27 from the obligation in paragraph 1(b) above in so far as it relates to non-financial information.</p>		
Article 46a	<p>1. A company whose securities are admitted to trading on a regulated market within the meaning of Article 4(1), point (14) of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments (1) shall include a corporate governance statement in its annual report. That statement shall be included as a specific section of the annual report and</p>	<p>Article 9 of the Law states that The structure and content of annual financial statements shall be regulated by a sub-normative act issued by the Minister of Finance upon proposal of KCFR.</p>	<p>No reference to corporate governance is made in the law.</p>

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	<p>shall contain at least the following information:</p> <p>(a) a reference to:</p> <p>(i) the corporate governance code to which the company is subject, and/or</p> <p>(ii) the corporate governance code which the company may have voluntarily decided to apply,</p> <p>and/or</p> <p>(iii) all relevant information about the corporate governance practices applied beyond the requirements under national law.</p> <p>Where points (i) and (ii) apply, the company shall also indicate where the relevant texts are publicly available; where point (iii) applies, the company shall make its corporate governance practices publicly available;</p> <p>(b) to the extent to which a company, in</p>		

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	<p>accordance with national law, departs from a corporate governance code referred to under points (a)(i) or (ii), an explanation by the company as to which parts of the corporate governance code it departs from and the reasons for doing so. Where the company has decided not to apply any provisions of a corporate governance code referred to under points (a)(i) or (ii), it shall explain its reasons for doing so;</p> <p>(c) a description of the main features of the company's internal control and risk management systems in relation to the financial reporting process;</p> <p>(d) the information required by Article 10(1), points (c), (d), (f), (h) and (i) of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids (1), where the company is subject to that Directive;</p> <p>(e) unless the information is already fully provided for in national laws or</p>		

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	<p>regulations, the operation of the shareholder meeting and its key powers, and a description of shareholders' rights and how they can be exercised;</p> <p>(f) the composition and operation of the administrative, management and supervisory bodies and their committees.</p> <p>2. Member States may permit the information required by this Article to be set out in a separate report published together with the annual report in the manner set out in Article 47 or by means of a reference in the annual report where such document is publicly available on the company's website. In the event of a separate report, the corporate governance statement may contain a reference to the annual report where the information required in paragraph 1, point (d) is made available. Article 51(1), second subparagraph shall apply to the provisions of paragraph 1, points (c) and (d) of this Article. For the remaining information, the statutory auditor shall check that the</p>		

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	<p>corporate governance statement has been produced.</p> <p>3. Member States may exempt companies which have only issued securities other than shares admitted to trading on a regulated market, within the meaning of Article 4(1), point (14) of Directive 2004/39/EC, from the application of the provisions of paragraph 1, points (a), (b), (e) and (f), unless such companies have issued shares which are traded in a multilateral trading facility, within the meaning of Article 4(1), point (15) of Directive 2004/39/EC.</p>		
Article 47	<p>Publication</p> <p>1. The annual accounts, duly approved, and the annual report, together with the opinion submitted by the person responsible for auditing the accounts, shall be published as laid down by the laws of each Member State in accordance</p>	<p>Article 11 of the AA law states that 1. The financial statement of the Business Organizations have to be audited in accordance with International standards on auditing and in accordance with Article 5 paragraph 1. of this law, submitted and published in KCRF and a copy submitted to MTI, no later than 30 April of the following year.</p>	<p>There is no reference in the Law to these points.</p>

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	<p>with Article 3 of Directive 68/151/EEC.</p> <p>The laws of a Member State may, however, permit the annual report not to be published as stipulated above. It must be possible to obtain a copy of all or part of any such report upon request. The price of such a copy must not exceed its administrative cost.</p> <p>1a. The Member State of a company or firm referred to in Article 1 (1), second and third subparagraphs (entity concerned) may exempt that entity from publishing its accounts in accordance with Article 3 of Directive 68/151/EEC, provided that those accounts are available to the public at its head office, where:</p> <p>(a) all the members having unlimited liability of the entity concerned are the companies referred to in the first subparagraph of Article 1 (1) governed by the laws of Member States other than the Member State whose law governs that entity and none of those companies</p>	<p>2. Consolidated financial statements have to be audited in accordance with International standards on auditing and in accordance with Article 5. paragraph 3 of the law shall be submitted to KCFR and a copy in MTI, and no later than 30 of June of the following year.</p>	

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	<p>publishes the accounts of the entity concerned with its own accounts; or</p> <p>(b) all the members having unlimited liability are companies which are not governed by the laws of a Member State but which have a legal form comparable to those referred to in Directive 68/151/EEC.</p> <p>Copies of the accounts must be obtainable upon request. The price of such a copy may not exceed its administrative cost. Appropriate sanctions must be provided for failure to comply with the publication obligation imposed in this paragraph.</p> <p>2. By way of derogation from paragraph 1, the Member States may permit the companies referred to in Article 11 to publish:</p> <p>(a) abridged balance sheets showing only those items preceded by letters and roman numerals in Articles 9 and 10, disclosing separately the information required in</p>		

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	<p>brackets in D (II) under 'Assets' and C under 'Liabilities' in Article 9 and in D (11) in Article 10, but in total for all the items concerned; and</p> <p>(b) abridged notes on their accounts in accordance with Article 44. Article 12 shall apply. In addition, the Member States may relieve such companies from the obligation to publish their profit and loss accounts and annual reports and the opinions of the persons responsible for auditing the accounts.</p> <p>3. The Member States may permit the companies mentioned in Article 27 to publish:</p> <p>(a) abridged balance sheets showing only those items preceded by letters and roman numerals in Articles 9 and 10 disclosing separately, either in the balance sheet or in the notes on the accounts:</p> <p>— C (I) (3), C (II) (1), (2), (3) and (4), C (III) (1), (2), (3), (4) and (7), D (II) (2), (3)</p>		

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	<p>and (6) and D (III) (1) and (2) under 'Assets' and C, (1), (2), (6), (7) and (9) under 'Liabilities' in Article 9, — C (I) (3), C (II) (1), (2), (3) and (4), C (III) (1), (2), (3), (4) and (7), D (II) (2), (3) and (6), D (III) (1) and (2), F (1), (2), (6), (7) and (9) and (I) (1), (2), (6), (7) and (9) in Article 10, — the information required in brackets in D (II) under 'Assets' and C under 'Liabilities' in Article 9, in total for all the items concerned and separately for D (II) (2) and (3) under 'Assets' and C (1), (2), (6), (7) and (9) under 'Liabilities', the information required in brackets in D (11) in Article 10, in total for all the items concerned, and separately for D (II) (2) and (3);</p> <p>(b) abridged notes on their accounts without the information required in Article 43 (1) (5), (6), (8), (10) and (11). However, the notes on the accounts must give the information specified in Article 43 (1) (6) in total for all the items</p>		

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	concerned. This paragraph shall be without prejudice to paragraph 1 in so far as it relates to the profit and loss account, the annual report and the opinion of the person responsible for auditing the accounts. Article 12 shall apply		
Article 48	Whenever the annual accounts and the annual report are published in full, they must be reproduced in the form and text on the basis of which the person responsible for auditing the accounts has drawn up his opinion. They must be accompanied by the full text of his report	No reference in the law to this matter.	No specific reference in the law to this matter
Article 49	If the annual accounts are not published in full, it must be indicated that the version published is abridged and reference must be made to the register in which the accounts have been filed in accordance with Article 47 (1). Where such filing has not yet been effected, the fact must be disclosed. The report of the person or persons responsible for auditing the	No reference in the law to this matter.	No specific reference in the law to this matter

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	annual accounts (hereinafter: the statutory auditors) shall not accompany this publication, but it shall be disclosed whether an unqualified, qualified or adverse audit opinion was expressed, or whether the statutory auditors were unable to express an audit opinion. It shall also be disclosed whether the report of the statutory auditors included a reference to any matters to which the statutory auditors drew attention by way of emphasis without qualifying the audit opinion.		
Article 50	<p>The following must be published together with the annual accounts, and in like manner:</p> <p>— the treatment of the profit or the loss,</p> <p>— the appropriation of the profit or treatment of the loss, where these items do not appear in the annual accounts.</p>	No reference in the law to this matter.	No specific reference in the law to this matter

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
Article 50b	<p>Duty and liability for publishing the annual accounts and the annual report</p> <p>Member States shall ensure that the members of the administrative, management and supervisory bodies of the company have collectively the duty to ensure that the annual accounts, the annual report and, when provided separately, the corporate governance statement to be provided pursuant to Article 46a are drawn up and published in accordance with the requirements of this Directive and, where applicable, in accordance with the international accounting standards adopted in accordance with Regulation (EC) No 1606/2002. Such bodies shall act within the competences assigned to them by national law.</p>	No reference in the law to this matter.	No specific reference in the law to this matter
Article 50c	Member States shall ensure that their laws, regulations and administrative provisions on liability apply to the members of the administrative,	No reference in the law to this matter.	No specific reference in the law to this matter

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	management and supervisory bodies referred to in Article 50b, at least towards the company, for breach of the duty referred to in Article 50b		
Article 51a	<p>Content of Statutory Audit Report</p> <p>1. The report of the statutory auditors shall include:</p> <p>(a) an introduction which shall at least identify the annual accounts that are the subject of the statutory audit, together with the financial reporting framework that has been applied in their preparation;</p> <p>(b) a description of the scope of the statutory audit which shall at least identify the auditing standards in accordance with which the statutory audit was conducted;</p> <p>(c) an audit opinion which shall state clearly the opinion of the statutory auditors as to whether the annual</p>	No reference in the law to this matter.	No reference in the law to this matter.

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment
	<p>accounts give a true and fair view in accordance with the relevant financial reporting framework and, where appropriate, whether the annual accounts comply with statutory requirements; the audit opinion shall be either unqualified, qualified, an adverse opinion or, if the statutory auditors are unable to express an audit opinion, a disclaimer of opinion;</p> <p>(d) a reference to any matters to which the statutory auditors draw attention by way of emphasis without qualifying the audit opinion;</p> <p>(e) an opinion concerning the consistency or otherwise of the annual report with the annual accounts for the same financial year.</p> <p>2. The report shall be signed and dated by the statutory auditors.</p>		

Ref.	Article from the Fourth Directive	Relevant Law in Kosovo	Comment

Concordance Table - the Eighth Directive

EU	<p>Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts</p> <p>Directive 2008/30/EC of the European Parliament and of the Council of 11 March 2008</p>
KOSOVO	LAW ON ACCOUNTING, FINANCIAL REPORTING AND AUDITING (Law No./L-014)

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p><i>Article 1</i> Subject matter</p> <p>This Directive establishes rules concerning the statutory audit of annual and consolidated accounts</p>	<p>Article 1 Goal</p> <p>This law shall regulate the accounting and financial reporting system of business organizations, competences and responsibilities of Kosovo Council for Financial Reporting, audit requirements, qualifications for professional accountant, licensing of auditors, as well as foreign and local audit firms.</p>	<p>The Law covers accounting, financial reporting and audit.</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p><i>Article 2</i> Definitions</p> <p>For the purpose of this Directive, the following definitions shall apply:</p> <p>1) "statutory audit" means an audit of annual accounts or consolidated accounts insofar as required by Community law;</p> <p>2) "statutory auditor" means a natural person who is approved in accordance with this Directive by the competent authorities of a Member State to carry out statutory audits;</p> <p>3) "audit firm" means a legal person or any other entity, regardless of its legal form, that is approved in accordance with this Directive by the competent authorities of a Member State to carry out statutory audits;</p> <p>4) "third-country audit entity" means an entity, regardless of its legal form, which carries out audits of the annual or consolidated accounts of a company incorporated in a third country;</p> <p>5) "third-country auditor" means a natural person who carries out audits of the annual or consolidated accounts of a company incorporated in a third country;</p> <p>6) "group auditor" means the statutory auditor(s) or audit firm(s) carrying out the statutory audit of consolidated accounts;</p> <p>7) "network" means the larger structure:</p>	<p>Article 2 Definitions</p> <p>1. Terms used in this law shall have the following meaning:</p> <p>1.4. Audit firm- a legal person or any other entity notwithstanding its legal status that is licensed to conduct statutory audit activities in accordance with this law.</p> <p>1.15. IAS - International Accounting Standards (IAS), International Financial Reporting Standards (IFRS), and related interpretations (SIC-IFRIC interpretations), subsequent amendments to these standards and related interpretations, and standards related in the future, as well as interpretations issued and adopted by the International Accounting Standards Board (IASB).</p> <p>1.16. ISA - the International Standards on Auditing issued by IAS.</p> <p>1.23. Auditor- the natural person licensed in accordance with this law.</p> <p>1.24. Key Audit Partners - means</p> <p>1.24.1. licensed auditor nominated by an</p>	<p>No definition of the statutory audit, group auditor, network, affiliate of an audit firm, audit report, non-practitioner, third country auditor, third country audit entity</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>– which is aimed at cooperation and to which a statutory auditor or an audit firm belongs, and</p> <p>– which is clearly aimed at profit- or cost-sharing or shares common ownership, control or management, common quality-control policies and procedures, a common business strategy, the use of a common brand-name or a significant part of professional resources;</p> <p>8) "affiliate of an audit firm" means any undertaking, regardless of its legal form, which is connected to an audit firm by means of common ownership, control or management;</p> <p>9) "audit report" means the report referred to in Article 51a of Directive 78/660/EEC and Article 37 of Directive 83/349/EEC issued by the statutory auditor or audit firm;</p> <p>10) "competent authorities" means the authorities or bodies designated by law that are in charge of the regulation and/or oversight of statutory auditors and audit firms or of specific aspects thereof; the reference to "competent authority" in a specific article means a reference to the authority or body(ies) responsible for the functions referred to in that Article;</p> <p>11) "international auditing standards" means International Standards on Auditing (ISA) and related Statements and Standards, insofar as relevant to the statutory audit;</p> <p>12) "international accounting standards" means</p>	<p>audit firm for a particular audit engagement, who is main supervisor for conducting audit on behalf of the audit firm;</p> <p>1.24.2. in case of a group of auditors, audit firm shall nominate responsible auditors to conduct auditing at the level of a group; or</p> <p>1.24.3. auditors who sign the audit report.</p> <p>1.26. Professional Accounting and Auditing Association- a non-profit organization established to promote and advance the position, efficiency and usefulness of public accounting profession as general interest.</p>	

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and related Interpretations (SIC-IFRIC interpretations), subsequent amendments to those standards and related interpretations, and future standards and related interpretations issued or adopted by the International Accounting Standards Board (IASB);</p> <p>13) "public-interest entities" means entities governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member State within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC, credit institutions as defined in point 1 of Article 1 of Directive 2000/12/EC of the European Parliament and of the Council of 20 March 2000 relating to the taking up and pursuit of the business of credit institutions and insurance undertakings within the meaning of Article 2(1) of Directive 91/674/EEC. Member States may also designate other entities as public-interest entities, for instance entities that are of significant public relevance because of the nature of their business, their size or the number of their employees;</p> <p>14) "cooperative" means a European Cooperative Society as defined in Article 1 of Council Regulation (EC) No 1435/2003 of 22 July 2003 on the Statute for a European Cooperative Society (SCE), or any other cooperative for which a</p>		

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>statutory audit is required under Community law, such as credit institutions as defined in point 1 of Article 1 of Directive 2000/12/EC and insurance undertakings within the meaning of Article 2(1) of Directive 91/674/EEC;</p> <p>15) "non-practitioner" means any natural person who, for at least three years before his or her involvement in the governance of the public oversight system, has not carried out statutory audits, has not held voting rights in an audit firm, has not been a member of the administrative or management body of an audit firm and has not been employed by, or otherwise associated with, an audit firm;</p> <p>16) "key audit partner(s)" mean(s):</p> <p>(a) the statutory auditor(s) designated by an audit firm for a particular audit engagement as being primarily responsible for carrying out the statutory audit on behalf of the audit firm; or</p> <p>(b) in the case of a group audit, at least the statutory auditor(s) designated by an audit firm as being primarily responsible for carrying out the statutory audit at the level of the group and the statutory auditor(s) designated as being primarily responsible at the level of material subsidiaries; or</p> <p>(c) the statutory auditor(s) who sign(s) the audit report.</p>		

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p><i>Article 3</i> Approval of statutory auditors and audit firms 1. A statutory audit shall be carried out only by statutory auditors or audit firms which are approved by the Member State requiring the statutory audit. 2. Each Member State shall designate competent authorities which shall be responsible for approving statutory auditors and audit firms. The competent authorities may be professional associations, provided that they are subject to a system of public oversight as provided for in Chapter VIII. 3. Without prejudice to Article 11, the competent authorities of the Member States may approve as statutory auditors only natural persons who satisfy at least the conditions laid down in Articles 4 and 6 to 10. 4. The competent authorities of the Member States may approve as audit firms only those entities which satisfy the following conditions: (a) the natural persons who carry out statutory audits on behalf of an audit firm must satisfy at least the conditions imposed by Articles 4 and 6 to 12 and must be approved as statutory auditors in the Member State concerned; (b) a majority of the voting rights in an entity must be held by audit firms which are approved in any Member State or by natural persons who satisfy at least the conditions imposed by Articles 4</p>	<p>Article 5 Application of IFRS, IAS, KAS, ISA and other requirements in drafting and auditing of financial statements 6. All statutory audits in Kosovo, which include all audits required under this law, and external independent audits of other business or not-for-profit, socially owned or publicly owned enterprises or other entities as mandated by other applicable laws in Kosovo shall be carried out in accordance with the International Standards of Auditing (ISAs), and related interpretations, guidance and pronouncements of the IAASB, and by Auditors that are approved to carry out statutory audits by the competent authorities as defined in this law.</p> <p>Article 14 KCFR functions and responsibilities 1.3. licensing and keeping register of auditors as well as of the audit firms and professional associations of accounting and auditing;</p> <p>Article 15 KFRC Commissions 1. KFRC shall appoint committees as needed</p>	<p>The Law states that a statutory audit shall be performed only by auditors approved to carryout statutory audits by the competent authority (no referral to audit firms in the article). One of the responsibilities of the Kosovo Financial Reporting Council (KFRC) is approving statutory auditors and audit firms.</p> <p>The Law stipulates that, in order to become an auditor, the individual must be a member of a recognized professional association. Further, the Law requires that professional associations may certify only those individuals who completed a certification program that complies with International Accounting Education Standards (IES). KFRC is responsible for certifying accounting associations, one of the criteria being the quality of the candidate association's certification program;</p> <p>Article 4 b) and c) of the 8th Directive re members of the administrative or management body is not covered by the</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>and 6 to 12. Member States may provide that such natural persons must also have been approved in another Member State. For the purpose of the statutory audit of cooperatives and similar entities as referred to in Article 45 of Directive 86/635/EEC, Member States may establish other specific provisions in relation to voting rights;</p> <p>(c) a majority — up to a maximum of 75 % — of the members of the administrative or management body of the entity must be audit firms which are approved in any Member State or natural persons who satisfy at least the conditions imposed by Articles 4 and 6 to 12. Member States may provide that such natural persons must also have been approved in another Member State. Where such a body has no more than two members, one of those members must satisfy at least the conditions in this point;</p> <p>(d) the firm must satisfy the condition imposed by Article 4.</p> <p>Member States may set additional conditions only in relation to point (c). Such conditions shall be proportionate to the objectives pursued and shall not go beyond what is strictly necessary.</p>	<p>to ensure implementation of the International Standards and relevant EU "Acquis Communautaire" including Directive no. 78/660/EEC, Directive no. 83/349/EEC and Directive no. 84/253/EEC of EU.</p> <p>2. KFRC must have the following commissions:</p> <p>2.3. licensing of the Auditors, audit firms and professional accounting and audit associations;</p>	<p>Law</p>
<p><i>Article 4</i> Good repute The competent authorities of a Member State may grant approval only to natural persons or firms of</p>	<p>Article 21 Conditions 1. Individuals who meet the following criteria shall be licensed by KCFR as</p>	<p>Good repute provision for auditors in the Law but not for the audit firms.</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
good repute.	Auditors: 1.5. those that meet the highest standards of professional integrity and competency and have a good reputation.	
<p><i>Article 5</i> Withdrawal of approval</p> <p>1. Approval of a statutory auditor or an audit firm shall be withdrawn if the good repute of that person or firm has been seriously compromised. Member States may, however, provide for a reasonable period of time for the purpose of meeting the requirements of good repute.</p> <p>2. Approval of an audit firm shall be withdrawn if any of the conditions imposed in Article 3(4), points (b) and (c) is no longer fulfilled. Member States may, however, provide for a reasonable period of time for the purpose of fulfilling those conditions.</p> <p>3. Where the approval of a statutory auditor or of an audit firm is withdrawn for any reason, the competent authority of the Member State where the approval is withdrawn shall communicate that fact and the reasons for the withdrawal to the relevant competent authorities of Member States where the statutory auditor or audit firm is also approved which are entered in the first-named Member State's register in accordance with Article 16(1),</p>	<p>Article 21 Conditions</p> <p>8. KCFR, will revoke the license of a foreign or local audit firm, or auditor licensed in accordance with this law at any time if the audit firm or Auditor would not be any longer member of a licensed professional accounting and auditing association in Kosovo, or if violates the auditor independence, ethics and quality assurance requirements set out by KCFR.</p>	<p>There is no specific reference in the Law to these three instances that could trigger withdrawal of an audit license.</p> <p>The Law also does not provide for reasonable period of time for the purpose of meeting the requirements necessary for fulfilling the conditions for license.</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
point (c).		
<p><i>Article 6</i> Educational qualifications Without prejudice to Article 11, a natural person may be approved to carry out a statutory audit only after having attained university entrance or equivalent level, then completed a course of theoretical instruction, undergone practical training and passed an examination of professional competence of university final or equivalent examination level, organized or recognized by the Member State concerned.</p>	<p>Article 20 Qualification</p> <p>3. Candidates applying for certified accountant should have university diploma in the field of economy and business, should have three (3) years of work experience in the field of accounting, and should have passed the certification exam for this purpose.</p> <p>4. Professional education for certified accountant should be in compliance with International Accounting Education Standards IFAC as well as with relevant directives of the European Commission for this purpose.</p>	<p>The law stipulates the requirements of a University degree in economy and business, professional training and experience and an examination. However, the Law does not stipulate that the qualification itself must be "of university final or equivalent examination level" and entry into profession is now only possible only for economics or business graduates.</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p><i>Article 7</i> Examination of professional competence</p> <p>The examination of professional competence referred to in Article 6 shall guarantee the necessary level of theoretical knowledge of subjects relevant to statutory audit and the ability to apply such knowledge in practice. Part at least of that examination shall be written.</p>	<p>Article 20 Qualification</p> <p>4. Professional education for certified accountant should be in compliance with International Accounting Education Standards IFAC as well as with relevant directives of the European Commission for this purpose.</p>	<p>The Law stipulates that professional education must be in compliance with the IESs and relevant Directives.</p>
<p><i>Article 8</i> Test of theoretical knowledge</p> <p>1. The test of theoretical knowledge included in the examination shall cover the following subjects in particular:</p> <ul style="list-style-type: none"> (a) general accounting theory and principles; (b) legal requirements and standards relating to the preparation of annual and consolidated accounts; (c) international accounting standards; (d) financial analysis; (e) cost and management accounting; (f) risk management and internal control; (g) auditing and professional skills; (h) legal requirements and professional standards relating to statutory audit and statutory auditors; (i) international auditing standards; (j) professional ethics and independence. 		<p>The Law does not specify the scope of subjects included in the auditor's test of theoretical knowledge however it does require being in compliance with the relevant Directives as well as IESs.</p> <p>The KBSFR recognised SCAAK as Kosovo's professional accountancy (including auditing) body, and it is assumed that the recognition holds under the current Law.</p> <p>SCAAK has established a certification program that meets the requirements of the Statutory Audit Directive and International Education Standards.</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>2. It shall also cover at least the following subjects insofar as they are relevant to auditing:</p> <ul style="list-style-type: none"> (a) company law and corporate governance; (b) the law of insolvency and similar procedures; (c) tax law; (d) civil and commercial law; (e) social security law and employment law; (f) information technology and computer systems; (g) business, general and financial economics; (h) mathematics and statistics; (i) basic principles of the financial management of undertakings. <p>3. The Commission may, in accordance with the procedure referred to in Article 48(2), adapt the list of subjects to be included in the test of theoretical knowledge referred to in paragraph 1. When adopting those implementing measures the Commission shall take into account developments in auditing and the audit profession.</p>		<p>The SCAAK certification program, which uses translated and regularly updated ACCA training materials, consists of three stages as follows:</p> <p>Accounting technician: financial accounting 1, cost accounting, management information systems, commercial law and taxes</p> <p>Certified accountant: financial reporting, audit, financial management, advanced management accounting</p> <p>Auditor: advanced financial reporting, advanced audit and assurance, strategic management, professional practice</p>
<p><i>Article 9</i> Exemptions 1. By way of derogation from Articles 7 and 8, a Member State may provide that a person who has passed a university or equivalent examination or holds a university degree or equivalent qualification in one or more of the subjects referred to in Article 8 may be exempted from the test of</p>		<p>The Law does not mention the possibility of derogation from the prescribed subjects</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>theoretical knowledge in the subjects covered by that examination or degree.</p> <p>2. By way of derogation from Article 7, a Member State may provide that a holder of a university degree or equivalent qualification in one or more of the subjects referred to in Article 8 may be exempted from the test of the ability to apply in practice his or her theoretical knowledge of such subjects if he or she has received practical training in those subjects attested by an examination or diploma recognized by the State</p>		
<p><i>Article 10</i></p> <p>Practical training</p> <p>1. In order to ensure the ability to apply theoretical knowledge in practice, a test of which is included in the examination, a trainee shall complete a minimum of three years' practical training in, inter alia, the auditing of annual accounts, consolidated accounts or similar financial statements. At least two thirds of such practical training shall be completed with a statutory auditor or audit firm approved in any Member State.</p> <p>2. Member States shall ensure that all training is carried out with persons providing adequate guarantees regarding their ability to provide practical training.</p>	<p>Article 21</p> <p>Conditions</p> <p>1. Individuals who meet the following criteria shall be licensed by KCFR as Auditors:</p> <p>1.3. those who have a three (3) year work experience under the supervision of a Auditor;</p>	<p>The Law does not stipulate the context (e.g. approved audit firm) in which the practical experience shall be gained nor that trainers need to provide adequate guarantees of competence</p>
<i>Article 11</i>		There are no such derogations in the

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>Qualification through long-term practical experience</p> <p>A Member State may approve a person who does not satisfy the conditions laid down in Article 6 as a statutory auditor, if he or she can show either: that he or she has, for 15 years, engaged in professional activities which have enabled him or her to acquire sufficient experience in the fields of finance, law and accountancy, and has passed the examination of professional competence referred to in Article 7, or</p> <p>(b) that he or she has, for seven years, engaged in professional activities in those fields and has, in addition, undergone the practical training referred to in Article 10 and passed the examination of professional competence referred to in Article 7.</p>		Law
<p><i>Article 12</i></p> <p>Combination of practical training and theoretical instruction</p> <p>Member States may provide that periods of theoretical instruction in the fields referred to in Article 8 shall count towards the periods of professional activity referred to in Article 11, provided that such instruction is attested by an examination recognized by the State. Such instruction shall not last less than one year, nor may it reduce the period of professional activity by more than four years.</p>		There is no such option in the Law

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>2. The period of professional activity and practical training shall not be shorter than the course of theoretical instruction together with the practical training required in Article 10.</p>		
<p><i>Article 13</i> Continuing education Member States shall ensure that statutory auditors are required to take part in appropriate programmes of continuing education in order to maintain their theoretical knowledge, professional skills and values at a sufficiently high level, and that failure to respect the continuing education requirements is subject to appropriate penalties as referred to in Article 30</p>	<p>Article 14 KCFR functions and responsibilities 1.5. supervise continuous education, quality assurance and disciplinary system;</p>	<p>The Law stipulates that one of the KFRC responsibilities is to supervise CPD. However, there is no reference in the Law, that auditors are required to take part in appropriate programmes of CPD.</p> <p>All accountants and auditors, in order to have and keep the licence, are required by the Law, to be members of professional accountancy body, SCAAK in this case, and are required by SCAAK to take part in programs of continuing professional development. SCAAK requires that all certified accountants (and therefore, also auditors) participate in 40 hours of CPD every year; certified accountants must have least 18 hours of formal, verifiable CPD annually, licensed auditors 24 hours thereof. The members are required to assess which CPD content is relevant to them based on their work</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
		<p>and/or specialization.</p> <p>However there is no reference to disciplinary procedures and penalties in case of failure to respect the continuing education requirements.</p>
<p><i>Article 14</i> Approval of statutory auditors from other Member States The competent authorities of the Member States shall establish procedures for the approval of statutory auditors who have been approved in other Member States. Those procedures shall not go beyond a requirement to pass an aptitude test in accordance with Article 4 of Council Directive 89/48/EEC of 21 December 1988 on a general system for the recognition of higher-education diplomas awarded on completion of professional education and training of at least three years' duration (1). The aptitude test, which shall be conducted in one of the languages permitted by the language rules applicable in the Member State concerned, shall cover only the statutory auditor's adequate knowledge of the laws and regulations of that Member State in so far as relevant to statutory audits.</p>	<p>Article 14 KCFR functions and responsibilities</p> <p>2. KCFR verifies international certificates of auditors and accountants.</p> <p>3. Candidates who have titles and other qualifications are entitled in recognition of such titles and qualifications pursuant to the request for recognition to the approved association in Kosovo. Any approved association should have approved scheme from KCFR, for recognition of qualifications and other titles from the offered ones by the association in order to enable the interested candidates to exercise the right prescribed in this paragraph.</p>	<p>The procedure for approval of international certificates of auditors and accountants is established. However, the Law does not stipulate that those procedures shall not go beyond a requirement to pass an aptitude test.</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p><i>Article 15</i> Public register 1. Each Member State shall ensure that statutory auditors and audit firms are entered in a public register in accordance with Articles 16 and 17. In exceptional circumstances, Member States may disapply the requirements laid down in this Article and Article 16 regarding disclosure only to the extent necessary to mitigate an imminent and significant threat to the personal security of any person. 2. Member States shall ensure that each statutory auditor and audit firm is identified in the public register by an individual number. Registration information shall be stored in the register in electronic form and shall be electronically accessible to the public. 3. The public register shall also contain the name and address of the competent authorities responsible for approval as referred to in Article 3, for quality assurance as referred to in Article 29, for investigations and penalties on statutory auditors and audit firms as referred to in Article 30, and for public oversight as referred to in Article 32. 4. Member States shall ensure that the public register is fully operational by 29 June 2009.</p>	<p>Article 14 KCFR functions and responsibilities</p> <p>1. KCFR functions are: 1.3. licensing and keeping register of auditors as well as of the audit firms and professional associations of accounting and auditing</p> <p>Article 17 KFRC reporting 7. KCFR maintains a public register of all legal auditors and statutory auditing firms.</p>	<p>1. There is a requirement in the Law that the KCFR maintains a public register of all legal auditors and statutory audit firms but there are no requirements what the public register shall contain. 2. Statutory auditors and audit firms are not identified in the public register by an individual number. There is the register in electronic form, which can be publicly accessed through the MoF webpage, but currently the register is an Excel spreadsheet with no indication as to the frequency of update. 3. Paragraph 3 of Article 15 of the Directive is not covered by the law.</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p><i>Article 16</i></p> <p>Registration of statutory auditors</p> <p>1. As regards statutory auditors, the public register shall contain at least the following information:</p> <p>(a) name, address and registration number;</p> <p>(b) if applicable, the name, address, website address and registration number of the audit firm(s) by which the statutory auditor is employed, or with whom he or she is associated as a partner or otherwise;</p> <p>(c) all other registration(s) as statutory auditor with the competent authorities of other Member States and as auditor with third countries, including the name(s) of the registration authority(ies), and, if applicable, the registration number(s).</p> <p>2. Third-country auditors registered in accordance with Article 45 shall be clearly indicated in the register as such and not as statutory auditors.</p>		<p>1. There is no provision in the Law specifying which information shall be included in the register. The excel spreadsheet that is publicly available indicates the name of the auditor, issue date of licence, date of re-licensing, expiry date of the licence, telephone number and email address.</p> <p>2. No such provision. The excel spreadsheet that is publicly available indicates the foreign auditors as statutory auditors with the following details: the name of the auditor, issue date of licence, date of re-licensing, expiry date of the licence, telephone number and email address.</p>
<p><i>Article 17</i></p> <p>Registration of audit firms</p> <p>1. As regards audit firms, the public register shall contain at least the following information:</p> <p>(a) name, address and registration number;</p> <p>(b) legal form;</p> <p>(c) contact information, the primary contact person and, where applicable, the website address;</p> <p>(d) address of each office in the Member State;</p>		<p>1. There is no provision in the Law specifying which information shall be included in the register. The excel spreadsheet that is publicly available indicates the name of the audit firm, issue date of licence, date of re-licensing, expiry date of the licence, telephone number and email address.</p> <p>2. No such provision. The excel</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>(e) name and registration number of all statutory auditors employed by or associated as partners or otherwise with the audit firm;</p> <p>(f) names and business addresses of all owners and shareholders;</p> <p>(g) names and business addresses of all members of the administrative or management body;</p> <p>(h) if applicable, the membership of a network and a list of the names and addresses of member firms and affiliates or an indication of the place where such information is publicly available;</p> <p>(i) all other registration(s) as audit firm with the competent authorities of other Member States and as audit entity with third countries, including the name(s) of the registration authority(ies), and, if applicable, the registration number(s).</p> <p>2. Third-country audit entities registered in accordance with Article 45 shall be clearly indicated in the register as such and not as audit firms.</p>		<p>spreadsheet that is publicly available indicates the foreign audit companies as audit companies with the following details: the name of the auditor, issue date of licence, date of re-licensing, expiry date of the licence, telephone number and email address.</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p><i>Article 18</i> Updating of registration information Member States shall ensure that statutory auditors and audit firms notify the competent authorities in charge of the public register without undue delay of any change of information contained in the public register. The register shall be updated without undue delay after notification.</p>		No such provision in the Law
<p><i>Article 19</i> Responsibility for registration information The information provided to the relevant competent authorities in accordance with Articles 16, 17 and 18 shall be signed by the statutory auditor or audit firm. Where the competent authority provides for the information to be made available electronically, that can, for example, be done by means of an electronic signature as defined in point 1 of Article 2 of Directive 1999/93/EC of the European Parliament and of the Council of 13 December 1999 on a Community framework for electronic signatures</p>		No such provision in the Law
<p><i>Article 20</i> Language</p>		No such provision in the Law

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>1. The information entered in the public register shall be drawn up in one of the languages permitted by the language rules applicable in the Member State concerned.</p> <p>2. Member States may additionally allow the information to be entered in the public register in any other official languages of the Community. Member States may require the translation of the information to be certified. In all cases, the Member State concerned shall ensure that the register indicates whether or not the translation is certified.</p>		
<p><i>Article 21</i> Professional ethics 1. Member States shall ensure that all statutory auditors and audit firms are subject to principles of professional ethics, covering at least their public-interest function, their integrity and objectivity and their professional competence and due care. 2. In order to ensure confidence in the audit function and to ensure uniform application of paragraph 1 of this Article, the Commission may, in accordance with the procedure referred to in Article 48(2), adopt principle-based implementing measures governing professional ethics.</p>	<p>Article 14 KCFR functions and responsibilities</p> <p>1. KCFR functions are: 1.4. Adoption of the standards of professional ethics, internal quality of audit firms</p> <p>Article 16 KCFR reporting</p> <p>1. KCFR demands from the licensed professional accountant and auditors' associations to present the following documents: 1.1. a copy of the Code of Ethics</p>	<p>KFRC responsibilities include stipulating the standards of professional ethics and internal quality to be followed by audit firms</p> <p>The Law requires licensed auditors to be members of a recognized accounting association. IFAC Code of Ethics is mandatory.</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
	<p>Article 22 Status of Associations</p> <p>1. A professional accounting and auditing associations shall be licensed by KCFR, by meeting these conditions:</p> <p>1.1. KCFR should be ensured that the association has fulfilled all requested according to this law and has fulfilled all the standards, directions and recommendations issued by IFAC, for its member associations;</p> <p>1.2. KCFR should be ensured that members of any association act in compliance with Code of professional conduct and with Code of Ethics of IFAC;</p>	
<p><i>Article 22</i> Independence and objectivity 1. Member States shall ensure that when carrying out a statutory audit, the statutory auditor and/or the audit firm is independent of the audited entity and is not involved in the decision-taking of the audited entity. 2. Member States shall ensure that a statutory auditor or an audit firm shall not carry out a</p>	<p>Article 17 KFRC reporting</p> <p>3. KCFR publishes written statements on policies, sub-legal acts which will assist in enforcing accounting and auditing standards in Kosovo, professional and educational</p>	<p>There is no direct reference to independence and objectivity in the Law.</p> <p>One of the KFRC responsibilities is to issue written requirements for auditors' independence. This has not been completed to date.</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>statutory audit if there is any direct or indirect financial, business, employment or other relationship — including the provision of additional non-audit services — between the statutory auditor, audit firm or network and the audited entity from which an objective, reasonable and informed third party would conclude that the statutory auditor's or audit firm's independence is compromised. If the statutory auditor's or audit firm's independence is affected by threats, such as self-review, self-interest, advocacy, familiarity or trust or intimidation, the statutory auditor or audit firm must apply safeguards in order to mitigate those threats. If the significance of the threats compared to the safeguards applied is such that his, her or its independence is compromised, the statutory auditor or audit firm shall not carry out the statutory audit. Member States shall in addition ensure that, where statutory audits of public-interest entities are concerned and where appropriate to safeguard the statutory auditor's or audit firm's independence, a statutory auditor or an audit firm shall not carry out a statutory audit in cases of self-review or self-interest.</p> <p>3. Member States shall ensure that a statutory auditor or audit firm documents in the audit working papers all significant threats to his, her or its independence as well as the safeguards applied</p>	<p>standards, requirements for auditor independence, including external quality assurance reviews and disciplinary procedures.</p>	

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>to mitigate those threats.</p> <p>4. In order to ensure confidence in the audit function and to ensure uniform application of paragraphs 1 and 2 of this Article, the Commission may, in accordance with the procedure referred to in Article 48(2), adopt principle-based implementing measures concerning:</p> <p>(a) the threats and safeguards referred to in paragraph 2;</p> <p>(b) the situations in which the significance of the threats, as referred to in paragraph 2, is such that the independence of the statutory auditor or audit firm is compromised;</p> <p>(c) the cases of self-review and self-interest referred to in the second subparagraph of paragraph 2, in which statutory audits may or may not be carried out</p>		
<p><i>Article 23</i></p> <p>Confidentiality and professional secrecy</p> <p>1. Member States shall ensure that all information and documents to which a statutory auditor or audit firm has access when carrying out a statutory audit are protected by adequate rules on confidentiality and professional secrecy.</p> <p>2. Confidentiality and professional secrecy rules relating to statutory auditors or audit firms shall not impede enforcement of the provisions of</p>	<p>Article 18</p> <p>Preserving data confidentiality</p> <p>1. KCFR and all staff must take all necessary measures to prevent unauthorized use and disclosure of data that are given in good faith.</p> <p>2. In relation to paragraph 1. of this Article, disclosure of data is permitted if:</p>	<p>There are no similar references to confidentiality and professional secrecy in the Law.</p> <p>There is an article in the Law relating to confidentiality but it relates only to KFCR.</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>this Directive.</p> <p>3. Where a statutory auditor or audit firm is replaced by another statutory auditor or audit firm, the former statutory auditor or audit firm shall provide the incoming statutory auditor or audit firm with access to all relevant information concerning the audited entity.</p> <p>4. A statutory auditor or audit firm who has ceased to be engaged in a particular audit assignment and a former statutory auditor or audit firm shall remain subject to the provisions of paragraphs 1 and 2 with respect to that audit assignment.</p>	<p>2.1. it is required by law in Kosovo;</p> <p>2.2. it is done in order to enable an authority or a person in a place outside Kosovo, to perform a function, duty that corresponds to that of KCFR; and</p> <p>2.3. it is allowed a licensed professional accounting and auditing society in order to exercise its functions.</p>	
<p><i>Article 24</i></p> <p>Independence and objectivity of the statutory auditors carrying out the statutory audit on behalf of audit firms</p> <p>Member states shall ensure that the owners or shareholders of an audit firm as well as the members of the administrative, management and supervisory bodies of such a firm, or of an affiliated firm, do not intervene in the execution of a statutory audit in any way which jeopardise the independence and objectivity of the statutory auditor who carries out the statutory audit on behalf of the audit firm.</p>		<p>No reference in the Law</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p><i>Article 25</i> Audit fees Member States shall ensure that adequate rules are in place which provide that fees for statutory audits:</p> <ol style="list-style-type: none"> 1. Are not influenced or determined by the provision of additional services to the audited entity; 2. Cannot be based on any form of contingency 		<p>No reference in the Law</p>
<p><i>Article 26</i> Auditing standards 1. Member States shall require statutory auditors and audit firms to carry out statutory audits in compliance with international auditing standards adopted by the Commission in accordance with the procedure referred to in Article 48(2). Member States may apply a national auditing standard as long as the Commission has not adopted an international auditing standard covering the same subject-matter. Adopted international auditing standards shall be published in full in each of the official languages of the Community in the <i>Official Journal of the European Union</i>. 2. The Commission may decide, in accordance with the procedure referred to in Article 48(2), on the applicability of international auditing standards within the Community. The Commission shall adopt international auditing standards for</p>	<p>Article 5 Application of IFRS, IAS, KAS, ISA and other requirements in drafting and auditing of financial statements 6. All statutory audits in Kosovo, which include all audits required under this law, and external independent audits of other business or not-for-profit, socially owned or publicly owned enterprises or other entities as mandated by other applicable laws in Kosovo shall be carried out in accordance with the International Standards of Auditing (ISAs), and related interpretations, guidance and pronouncements of the IAASB, and by Auditors that are approved to carry out statutory audits by the competent authorities as defined in this law. 7. The competent authority for the transposition of International Standards of</p>	<p>The Law requires audit to be carried out in accordance with ISAs. The option to apply national auditing standards if not covered by ISA is not exercised. <i>The Law prescribes the publication of ISAs on the webpage of the KFRC.</i></p> <p>Option allowed in Paragraph 3 of the Article 26 of the Directive is not exercised.</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>application in the Community only if they:</p> <p>(a) have been developed with proper due process, public oversight and transparency, and are generally accepted internationally;</p> <p>(b) contribute a high level of credibility and quality to the annual or consolidated accounts in conformity with the principles set out in Article 2(3) of Directive 78/660/EEC and in Article 16(3) of Directive 83/349/EEC; and</p> <p>(c) are conducive to the European public good.</p> <p>3. Member States may impose audit procedures or requirements in addition to — or, in exceptional cases, by carving out parts of — the international auditing standards only if these stem from specific national legal requirements relating to the scope of statutory audits. Member States shall ensure that these audit procedures or requirements comply with the provisions laid down in points (b) and (c) of paragraph 2 and shall communicate them to the Commission and Member States before their adoption. In the exceptional case of the carving out of parts of an international auditing standard, Member States shall communicate their specific national legal requirements, as well as the grounds for maintaining them, to the Commission and the other Member States at least six months before their national adoption or, in the case of requirements already existing at the time of adoption of an international auditing standard, at</p>	<p>Auditing and related interpretations, guidance and pronouncements of the IAASB shall be the KFRC.</p> <p>Article 17 KFRC reporting 6. Accounting and auditing standards and sub-legal acts and other documents issued by KCFR shall be published on the KCFR website, according to the Law No. 02/L-37 on Use of Languages.</p>	

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>the latest within three months of the adoption of the relevant international auditing standard.</p> <p>4. Member States may impose additional requirements relating to the statutory audits of annual and consolidated accounts for a period expiring on 29 June 2010.</p>		
<p><i>Article 27</i></p> <p>Statutory audits of consolidated accounts</p> <p>Member States shall ensure that in the case of a statutory audit of the consolidated accounts of a group of undertakings:</p> <p>(a) the group auditor bears the full responsibility for the audit report in relation with the consolidated accounts;</p> <p>(b) the group auditor carries out a review and maintains documentation of his or her review of the audit work performed by third-country auditor(s), statutory auditor(s), third country audit entity(ies) or audit firm(s) for the purpose of the group audit. The documentation retained by the group auditor shall be such as enables the relevant competent authority to review the work of the group auditor properly;</p> <p>(c) when a component of a group of undertakings is audited by auditor(s) or audit entity(ies) from a third country that has no working arrangement as</p>	<p>Article 11</p> <p>Submission and publication of financial statements</p> <p>2. Consolidated financial statements have to be audited in accordance with International standards on auditing and in accordance with Article 5. paragraph 3 of this law shall be submitted to KCFR and a copy in MTI, and no later than 30 of June of the following year.</p>	<p>The Law does not mention the duties of auditors in respect of statutory audit of the consolidated accounts but it does require to be done in accordance to ISAs</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>referred to in Article 47, the group auditor is responsible for ensuring proper delivery, when requested, to the public oversight authorities of the documentation of the audit work performed by the third-country auditor(s) or audit entity(ies), including the working papers relevant to the group audit. To ensure such delivery, the group auditor shall retain a copy of such documentation, or alternatively agree with the third-country auditor(s) or audit entity(ies) his proper and unrestricted access upon request, or take any other appropriate action.</p> <p>If legal or other impediments prevent audit working papers from being passed from a third country to the group auditor, the documentation retained by the group auditor shall include evidence that he or she has undertaken the appropriate procedures in order to gain access to the audit documentation, and in the case of impediments other than legal ones arising from country legislation, evidence supporting such an impediment.</p>		

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p><i>Article 28</i> Audit reporting 1. Where an audit firm carries out the statutory audit, the audit report shall be signed by at least the statutory auditor(s) carrying out the statutory audit on behalf of the audit firm. In exceptional circumstances Member States may provide that this signature need not be disclosed to the public if such disclosure could lead to an imminent and significant threat to the personal security of any person. In any case the name(s) of the person(s) involved shall be known to the relevant competent authorities. 2. Notwithstanding Article 51a(1) of Directive 78/660/EEC, if the Commission has not adopted a common standard for audit reports in accordance with Article 26(1) of this Directive, it may, in accordance with the procedure referred to in Article 48(2) of this Directive, adopt a common standard for audit reports for annual or consolidated accounts which have been prepared in accordance with approved international accounting standards, in order to enhance public confidence in the audit function.</p>		<p>There is no provision regarding audit reporting in the Law. However, the Law prescribes the mandatory use of ISAs and ISA 700 provides for the form and content of an audit report.</p> <p>No such reference in the Law to the signing of the audit report</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p><i>Article 29</i> Quality assurance systems 1. Each Member State shall ensure that all statutory auditors and audit firms are subject to a system of quality assurance which meets at least the following criteria: (a) the quality assurance system shall be organised in such a manner that it is independent of the reviewed statutory auditors and audit firms and subject to public oversight as provided for in Chapter VIII; (b) the funding for the quality assurance system shall be secure and free from any possible undue influence by statutory auditors or audit firms; (c) the quality assurance system shall have adequate resources; (d) the persons who carry out quality assurance reviews shall have appropriate professional education and relevant experience in statutory audit and financial reporting combined with specific training on quality assurance reviews; (e) the selection of reviewers for specific quality assurance review assignments shall be effected in accordance with an objective procedure designed to ensure that there are no conflicts of interest between the reviewers and the statutory auditor or audit firm under review; (f) the scope of the quality assurance review, supported by adequate testing of selected audit</p>	<p>Article 14 KCFR functions and responsibilities 1. KCFR functions are: 1.5. supervise continuous education, quality assurance and disciplinary system;</p> <p>Article 16 Supervision of Accountants and Auditors Associations 1. KCFR, demands from the licensed professional accountant and auditors associations to present the following documents: 1.2. report on the association proving the quality assurance programme; 1.3. report in relation to the results of the investigation and discipline in the association including the disciplinary procedures and 1.4. report on how the programme on quality of the association fulfills the requirements of the directives of the statutory audit of the European Union.</p>	<p>The Law does not directly stipulate the requirements that must be met by the quality assurance. KFRC is formally responsible for quality assurance and requires the professional association to set up and report on how the QA program meets the requirements of the statutory audit directive of the European Union.</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>files, shall include an assessment of compliance with applicable auditing standards and independence requirements, of the quantity and quality of resources spent, of the audit fees charged and of the internal quality control system of the audit firm;</p> <p>(g) the quality assurance review shall be the subject of a report which shall contain the main conclusions of the quality assurance review;</p> <p>(h) quality assurance reviews shall take place at least every six years;</p> <p>(i) the overall results of the quality assurance system shall be published annually;</p> <p>(j) recommendations of quality reviews shall be followed up by the statutory auditor or audit firm within a reasonable period. If the recommendations referred to in point (j) are not followed up, the statutory auditor or audit firm shall, if applicable, be subject to the system of disciplinary actions or penalties referred to in Article 30.</p> <p>2. The Commission may, in accordance with the procedure referred to in Article 48(2), adopt implementing measures in order to enhance public confidence in the audit function and to ensure uniform application of points (a), (b) and (e) to (j) of paragraph 1.</p>		

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p><i>Article 30</i> Systems of investigations and penalties 1. Member States shall ensure that there are effective systems of investigations and penalties to detect, correct and prevent inadequate execution of the statutory audit. 2. Without prejudice to Member States' civil liability regimes, Member States shall provide for effective, proportionate and dissuasive penalties in respect of statutory auditors and audit firms, where statutory audits are not carried out in Conformity with the provisions adopted in the implementation of this Directive. 3. Member States shall provide that measures taken and penalties imposed on statutory auditors and audit firms are appropriately disclosed to the public. Penalties shall include the possibility of the withdrawal of approval.</p>	<p>Article 14 KCFR functions and responsibilities 1.5. supervise continuous education, quality assurance and disciplinary system</p> <p>Article 15 KFRC Commissions</p> <p>1. KFRC shall appoint committees as needed to ensure implementation of the International Standards and relevant EU "Acquis Communautaire" including Directive no. 78/660/EEC, Directive no. 83/349/EEC and Directive no. 84/253/EEC of EU. 2.4. on investigations and discipline;</p> <p>Article 16 Supervision of Accountants and Auditors Associations</p> <p>1. KCFR, demands from the licensed professional accountant and auditors associations to present the following documents: 1.3. report in relation to the results of the investigation and discipline in the association including the disciplinary procedures and</p>	<p>There is no provision in the Law for applying penalties against inadequate execution of statutory audits. There is the provision that the license could be revoked in case of violation of independence, ethics and quality assurance requirements. There is no provision for the public disclosure of these measures taken against auditors for poor work</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
	<p>Article 17 KFRC reporting 3. KCFR publishes written statements on policies, sub-legal acts which will assist in enforcing accounting and auditing standards in Kosovo, professional and educational standards, requirements for auditor independence, including external quality assurance reviews and disciplinary procedures.</p> <p>Article 21 Conditions 8. KCFR, will revoke the license of a foreign or local audit firm, or auditor licensed in accordance with this law at any time if the audit firm or Auditor would not be any longer member of a licensed professional accounting and auditing association in Kosovo, or if violates the auditor independence, ethics and quality assurance requirements set out by KCFR.</p>	

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p><i>Article 32</i> Principles of public oversight 1. Member States shall organise an effective system of public oversight for statutory auditors and audit firms based on the principles set out in paragraphs 2 to 7. 2. All statutory auditors and audit firms shall be subject to public oversight. 3. The system of public oversight shall be governed by nonpractitioners who are knowledgeable in the areas relevant to statutory audit. Member States may, however, allow a minority of practitioners to be involved in the governance of the public oversight system. Persons involved in the governance of the public oversight system shall be selected in accordance with an independent and transparent nomination procedure. 4. The system of public oversight shall have the ultimate responsibility for the oversight of: (a) the approval and registration of statutory auditors and audit firms; (b) the adoption of standards on professional ethics, internal quality control of audit firms and auditing, and (c) continuing education, quality assurance and investigative and disciplinary systems. 5. The system of public oversight shall have the right, where necessary, to conduct investigations in relation to statutory auditors and audit firms and the</p>	<p>Article 13 Composition 1. KCFR is an independent professional body, as set by provisions of this Law. 2. KCFR consists of seven (7) members. The Chairman and other members of KCFR, upon proposal of the institution, shall be appointed by the Government and represent the following institutions: 2.1. one (1) member from the Central Bank of the Republic of Kosovo; 2.2. one (1) member from Universities providing higher education in accounting and auditing; 2.3. one (1) member from the Ministry of Finance; 2.4. one (1) member from the professional associations licensed by the KCFR; 2.5. three (3) members from the business community that are familiar with finances and business administration; 3. Neither the Chairman of KCFR nor its members shall hold public office or be a political appointee. 4. The KCFR members shall be appointed for a three (3) year period with the right of reappointment but, shall not serve more than two mandates.</p>	<p>The Law indicates that the KFRC is in charge of public oversight.</p> <p>The Law does not clearly indicate that the system of public oversight shall be governed by nonpractitioners. (for example the professor from University can also be practicing auditor).</p> <p>The Directive requires that the members of public oversight system are knowledgeable in the areas relevant to statutory audit. The Law requires members of KFRC possess the university degree in accounting, finance, business administration or law and at least eight (8) years of work experience in the field of accounting, finance and audit. (How does the Law degree fit into these requirements, particularly now that the Law requires the degree in accounting, finance and business administration to enter the profession)? Three of the members of the Council are members of the business community that are familiar with finances and business administration but the question is how are they going to fulfil the 8 years work experience in accounting,</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>right to take appropriate action.</p> <p>6. The system of public oversight shall be transparent. This shall include the publication of annual work programmes and activity reports.</p> <p>7. The system of public oversight shall be adequately funded. The funding for the public oversight system shall be secure and free from any undue influence by statutory auditors or audit firms.</p>	<p>5. The appointed persons in the KCFR must meet the following qualification criteria:</p> <p>5.1. University Degree in Accounting, Finance, Business Administration, or Law;</p> <p>5.2. at least eight (8) years of work experience in the field of accounting, finance and audit;</p> <p>5.3. a good reputation and relevant professional skills;</p> <p>6. The Government may, upon proposal of the institutions, according to paragraph 2. of this Article discharge the Chairman and members of KCFR on the grounds of:</p> <p>6.1. having gravely infringed the Law, or bad performance;</p> <p>6.2. being sentenced for a criminal offence for more than six (6) months by a plenipotentiary verdict;</p> <p>6.3. legal administration, bankruptcy, or compulsory liquidation, from the Court or any competent authority, of each company under the ownership, or being ran directly or indirectly, of the member;</p> <p>6.4. being married to, or having second degree family relationship with another member or official of KCFR;</p> <p>7. The Chairman, or member, of KCFR shall submit to the Government a Letter of Resignation for further procedures.</p>	<p>finance and audit requirement.</p> <p>No referral to the option of practitioners in the system in the Law.</p> <p>There is no reference in the Law that KFCR shall have the right, where necessary, to conduct investigations in relation to statutory auditors and audit firms and the right to take appropriate action.</p> <p>The Law requires the KFRC to publish its annual work report but activity reports are only submitted to the Government with no requirement of publication.</p> <p>The KFCR financed by the budget of Kosovo, its own income as well as donations. This may open the door for statutory auditors or audit firms as donations can also come from them. "Own income" has not been interpreted to date, i.e., can KFCR impose levies on the firms and auditors it regulates?</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
	<p>8. In the event of discharge, death, or resignation from KCFR, the Government shall appoint a new member no later than sixty (60) days. The member appointed on such occasion shall serve in lieu of the member being replaced and may get reappointed.</p> <p>9. The meetings of KCFR shall be held if five (5) members at least are present. The Council shall make a decision upon the majority of votes of the member being present. In the event of equal votes, the Chairman's vote shall be decisive.</p> <p>10. KCFR shall convene when it is necessary.</p> <p>11. KCFR shall be supported by a sufficient number of personnel in carrying out its duties as stipulated in Articles 14 paragraph 3. and Article 15 of this Law.</p> <p>12. Each KCFR member shall receive an honorarium for the meetings held and shall be compensated on the reasonable expenditures as a result of meetings and deeds of KCFR. Procedure of the compensation is determined by the sub- legal act issued by the minister.</p> <p>13. KCFR is financed by the Budget of Republic of Kosovo, its own income as well as donations.</p>	

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
	<p>14. KCFR issues its own regulation of duties and work.</p> <p>Article 14 KCFR functions and responsibilities</p> <p>1. KCFR functions are:</p> <p>1.1. to draft and approve Kosovo Accounting Standards in accordance with International Accounting Standards IAS/IFRS and relevant EU directives;</p> <p>1.2. supervise and implement Auditing Standards in accordance with ISA and relevant EU directives;</p> <p>1.3. licensing and keeping register of auditors as well as of the audit firms and professional associations of accounting and auditing;</p> <p>1.4. adoption of the standards of professional ethics, internal quality of auditing firms;</p> <p>1.5. supervise continuous education, quality assurance and disciplinary system;</p> <p>2. KCFR verifies international certificates of auditors and accountants.</p> <p>4. The Council shall be supported by an Administrative Secretariat (hereinafter the "Secretariat"), composed of managers and other administrative officers, in performing its functions and responsibilities under this</p>	

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
	<p>Law.</p> <p>5. The head and the employees of the Secretariat will be appointed and dismissed based on the Law on Civil Service.</p> <p>6. KCRF is obliged to present financial statements for business organizations if it is required by the Tax Administration of Kosovo.</p> <p>Article 16 Supervision of Accountants and Auditors Associations</p> <p>1. KCFR, demands from the licensed professional accountant and auditors associations to present the following documents:</p> <p>1.1. a copy of the "Code of Ethics";</p> <p>1.2. report on the association proving the quality assurance programme;</p> <p>1.3. report in relation to the results of the investigation and discipline in the association including the disciplinary procedures and</p> <p>1.4. report on how the programme on quality of the association fulfils the requirements of the directives of the statutory audit of the European Union.</p>	

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
	<p>Article 17 KFRC reporting</p> <p>1. KFRC, after December 31 of each year and up to June 30, must submit a report to the Government regarding the:</p> <p>1.1. performance of KFRC and its commissions;</p> <p>1.2. achievement of objectives set out for the ended fiscal year;</p> <p>2. KFRC publishes the annual work report.</p> <p>3. KCFR publishes written statements on policies, sub-legal acts which will assist in enforcing accounting and auditing standards in Kosovo, professional and educational standards, requirements for auditor independence, including external quality assurance reviews and disciplinary procedures.</p> <p>4. KFRC may publish instructions to business organizations to implement certain standards (IAS/IFRS) appropriate for business organizations.</p> <p>5. Standards, policies and sub-legal acts that are already issued by the Kosovo Board on Standards for Financial Reporting will be in effect pending KCFR amendments.</p> <p>6. Accounting and auditing standards and sub-legal acts and other documents issued by</p>	

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
	KCFR shall be published on the KCFR website, according to the Law No. 02/L-37 on Use of Languages. 7. KCFR maintains a public register of all legal auditors and statutory auditing firms.	
<p><i>Article 33</i> Cooperation between public oversight systems at Community level Member States shall ensure that regulatory arrangements for public oversight systems permit effective cooperation at Community level in respect of Member States' oversight activities. To that end, each Member State shall make one entity specifically responsible for ensuring that cooperation.</p>		No reference in the Law
<p><i>Article 34</i> Mutual recognition of regulatory arrangements between Member States 1. Regulatory arrangements of Member States shall respect the principle of home-country regulation and oversight by the Member State in which the statutory auditor or audit firm is approved and the audited entity has its registered office. 2. In the case of a statutory audit of consolidated</p>		No reference in the Law

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>accounts, the Member State requiring the statutory audit of the consolidated accounts may not impose additional requirements in relation to the statutory audit concerning registration, quality assurance review, auditing standards, professional ethics and independence on a statutory auditor or audit firm carrying out a statutory audit of a subsidiary established in another Member State.</p> <p>3. In the case of a company whose securities are traded on a regulated market in a Member State other than that in which that company has its registered office, the Member State in which the securities are traded may not impose any additional requirements in relation to the statutory audit concerning registration, quality assurance review, auditing standards, professional ethics and independence on a statutory auditor or audit firm carrying out the statutory audit of the annual or consolidated accounts of that company.</p>		

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p><i>Article 35</i> Designation of competent authorities</p> <ol style="list-style-type: none"> 1. Member states shall designate one or more competent authorities for the purpose of the tasks provided for in this Directive. Member States shall inform the Commission of their designation. 2. The competent authorities shall be organized in such a manner that conflict of interests are avoided. 		<p>The KFRC is competent authority for the purpose of the tasks provided by the Law. Members of the Council cannot hold public office nor be a political appointee</p>
<p><i>Article 36</i> Professional secrecy and regulatory cooperation between Member States</p> <p>The competent authorities of Member States responsible for approval, registration, quality assurance, inspection and discipline shall cooperate with each other whenever necessary for the purpose of carrying out their respective responsibilities under this Directive. The competent authorities in a Member State responsible for approval, registration, quality assurance, inspection and discipline shall render assistance to competent authorities in other Member States. In particular, competent authorities shall exchange information and cooperate in investigations related to the</p>		<p>There is no reference to professional secrecy and regulatory cooperation between Member States.</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>carrying-out of statutory audits.</p> <p>2. The obligation of professional secrecy shall apply to all persons who are employed or who have been employed by competent authorities. Information covered by professional secrecy may not be disclosed to any other person or authority except by virtue of the laws, regulations or administrative procedures of a Member State.</p> <p>3. Paragraph 2 shall not prevent competent authorities from exchanging confidential information. Information thus exchanged shall be covered by the obligation of professional secrecy, to which persons employed or formerly employed by competent authorities are subject.</p> <p>4. Competent authorities shall, on request, and without undue delay, supply any information required for the purpose referred to in paragraph 1. Where necessary, the competent authorities receiving any such request shall, without undue delay, take the necessary measures to gather the required information. Information thus supplied shall be covered by the obligation of professional secrecy to which the persons employed or formerly employed by the competent authorities that received the information are subject.</p> <p>If the requested competent authority is not able to supply the required information without undue delay, it shall notify the requesting competent</p>		

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>authority of the reasons therefor.</p> <p>The competent authorities may refuse to act on a request for information where:</p> <p>(a) supplying information might adversely affect the sovereignty, security or public order of the requested Member State or breach national security rules; or</p> <p>(b) judicial proceedings have already been initiated in respect of the same actions and against the same statutory auditors or audit firms before the authorities of the requested Member State; or final judgment has already been passed in respect of the same actions and on the same statutory auditors or audit firms by the competent authorities of the requested Member State.</p> <p>Without prejudice to the obligations to which they are subject in judicial proceedings, competent authorities which receive information pursuant to paragraph 1 may use it only for the exercise of their functions within the scope of this Directive and in the context of administrative or judicial proceedings specifically related to the exercise of those functions.</p> <p>5. Where a competent authority concludes that activities contrary to the provisions of this Directive are being or have been carried out on the territory of another Member State, it shall notify the competent authority of the other Member State of that conclusion in as specific a manner as</p>		

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>possible. The competent authority of the other Member State shall take appropriate action. It shall inform the notifying competent authority of the outcome and, to the extent possible, of significant interim developments.</p> <p>6. A competent authority of one Member State may also request that an investigation be carried out by the competent authority of another Member State on the latter's territory.</p> <p>It may further request that some of its own personnel be allowed to accompany the personnel of the competent authority of that other Member State in the course of the investigation. The investigation shall be subject throughout to the overall control of the Member State on whose territory it is conducted. The competent authorities may refuse to act on a request for an investigation to be carried out as provided for in the first subparagraph, or on a request for its personnel to be accompanied by personnel of a competent authority of another Member State as provided for in the second subparagraph, where:</p> <p>(a) such an investigation might adversely affect the sovereignty, security or public order of the requested Member State; or</p> <p>(b) judicial proceedings have already been initiated in respect of the same actions and against the same persons before the authorities of the requested Member State; or final judgment has already been</p>		

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>passed in respect of the same actions on such persons by the competent authorities of the requested Member State.</p> <p>7. The Commission may adopt implementing measures in order to facilitate cooperation between competent authorities on the procedures for the exchange of information and modalities for cross-border investigations provided for in paragraphs 2 to 4 of this Article. Those measures, designed to amend nonessential elements of this Directive by supplementing it, shall be adopted in accordance with the regulatory procedure with scrutiny referred to in Article 48(2a).</p>		
<p><i>Article 37</i></p> <p>Appointment of statutory auditors or audit firms</p> <p>1. The statutory auditor or audit firm shall be appointed by the general meeting of shareholders or members of the audited entity.</p> <p>2. Member States may allow alternative systems or modalities for the appointment of the statutory auditor or audit firm, provided that those systems or modalities are designed to ensure the independence of the statutory auditor or audit firm from the executive members of the administrative body or from the managerial body of the audited entity.</p>		<p>There is no referral to this provision in the Law on accounting, financial reporting and audit.</p> <p>The Law on banks, microfinance institutions and non-bank financial institutions requires that the external auditor of the banks be appointed by the general meeting if shareholders</p> <p>The Law on Business Organizations requires shareholders of the joint stock companies to approve auditors.</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p><i>Article 38</i> Dismissal and resignation of statutory auditors or audit firms 1. Member States shall ensure that statutory auditors or audit firms may be dismissed only where there are proper grounds. Divergence of opinions on accounting treatments or audit procedures shall not be proper grounds for dismissal. 2. Member States shall ensure that the audited entity and the statutory auditor or audit firm inform the authority or authorities responsible for public oversight concerning the dismissal or resignation of the statutory auditor or audit firm during the term of appointment and give an adequate explanation of the reasons therefor.</p>		No reference in the Law

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p><i>Article 39</i></p> <p>Application to non-listed public interest entities</p> <p>Member States may exempt public-interest entities which have not issued transferable securities admitted to trading on a regulated market within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC and their statutory auditor(s) or audit firm(s) from one or more of the requirements in this Chapter.</p>		N/A
<p><i>Article 40</i></p> <p>Transparency report</p> <p>1. Member States shall ensure that statutory auditors and audit firms that carry out statutory audit(s) of public-interest entities publish on their websites, within three months of the end of each financial year annual transparency reports that include at least the following:</p> <ul style="list-style-type: none"> a) A description of the legal structure and ownership b) Where the audit firm belongs to a network , a description of the network and the legal and structural arrangements in the network c) A description of the governance structure of the audit firm d) A description of the internal quality control system of the audit firm and a statement by the administrative or management body on the 		No reference in the Law

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>effectiveness of its functioning</p> <ul style="list-style-type: none"> e) An indication of when the last quality assurance review referred to in Article 29 took place f) A list of public-interest entities for which the audit firm has carried out statutory audits during the preceding financial year g) A statement concerning the audit firm's independence practices which also confirms that an internal review of independence compliance has been conducted h) A statement on the policy followed by the audit firm concerning the continuing education of statutory auditors referred to in Article 13 i) Financial information showing the importance of the audit firm, such as the total turnover divided into fees from the statutory audit of annual and consolidated accounts, and fees charged for other assurance services, tax advisory services and other non-audit services j) Information concerning the basis for the partners' remuneration <p>Member States may in exceptional circumstances disapply the requirement in point (f) to the extent necessary to mitigate an imminent and significant threat to the personal security of any person.</p> <p>2. The transparency report shall be signed by the statutory auditor or audit firm, as the case may be. This can be done, for example, by means of an electronic signature as defined in Article</p>		

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
2(1) of Directive 1999/93/EC		
<p><i>Article 41</i> Audit committee 1. Each public-interest entity shall have an audit committee. The Member State shall determine whether audit committees are to be composed of non-executive members of the administrative body and/or members of the supervisory body of the audited entity and/or members appointed by the general meeting of shareholders of the audited entity. At least one member of the audit committee shall be independent and shall have competence in accounting and/or auditing. In public-interest entities which meet the criteria of Article 2(1), point (f) of Directive 2003/71/EC (1), Member States may permit the functions assigned to the audit committee to be performed by the administrative or supervisory body as a whole, provided at least that when the chairman of such a body is an executive member, he or she is not the</p>	<p>Article 181 (joint stock company) of the Law on Business Organizations Committees of the Board The charter or bylaws may establish, or the directors may adopt a resolution establishing, one or more committees, such as an audit or a remuneration committee review, study, make recommendations on, or take other non-binding action with respect to matters which are within the competence of the board. These committees may include members from the Board of Directors and company employees as well as persons outside the company.</p>	<p>No reference in the Law on accounting, financial reporting and auditing.</p> <p>The Law on Business organizations provides an option for joint stock company to have audit committee (not mandatory). No requirement that at least one of the members of the committee shall be independent and shall have competence in accounting and or auditing. No referral to the duties of the committee.</p> <p>The Law on banks, microfinance institutions and non-bank financial institutions requires the board of directors of banks to establish an audit committee the members of which are selected from among the non-executive directors and external experts. A</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>chairman of the audit committee.</p> <p>2. Without prejudice to the responsibility of the members of the administrative, management or supervisory bodies, or of other members who are appointed by the general meeting of shareholders of the audited entity, the audit committee shall, <i>inter alia</i>:</p> <p>(a) monitor the financial reporting process;</p> <p>(b) monitor the effectiveness of the company's internal control, internal audit where applicable, and risk management systems;</p> <p>(c) monitor the statutory audit of the annual and consolidated accounts;</p> <p>(d) review and monitor the independence of the statutory auditor or audit firm and in particular the provision of additional services to the audited entity.</p> <p>3. In a public-interest entity, the proposal of the administrative or supervisory body for the appointment of a statutory auditor or audit firm shall be based on a recommendation made by the audit committee.</p> <p>4. The statutory auditor or audit firm shall report to the audit committee on key matters arising from the statutory audit, and in particular on material weaknesses in internal control in relation to the financial reporting process.</p> <p>5. Member States may allow or decide that the provisions laid down in paragraphs 1 to 4 shall not</p>		<p>majority of the members of the Audit Committee shall be non-executive directors. At least one member of the Audit Committee shall be an outside expert in the field of accounting or audit who meets the criteria for independence of directors in Article 26, Paragraph 3. of this law. The Audit Committee shall:</p> <p>1.1. meet at least quarterly and at such other times as provided for in the by-laws; 21</p> <p>1.2. recommend appropriate accounting, operational and administrative internal controls;</p> <p>1.3. supervise the bank's compliance with policies and procedures;</p> <p>1.4. request and review reports from the bank's chief internal auditor;</p> <p>1.5. recommend compensation for the chief internal auditor;</p> <p>1.6. monitor compliance with this Law and applicable regulations or orders;</p> <p>1.7. recommend the appointment of an external auditor pursuant to Article 54 of this law;</p> <p>1.8. monitor the performance of the external auditor, review the external auditor's report on the bank's financial</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>apply to any public interest entity that has a body performing equivalent functions to an audit committee, established and functioning according to provisions in place in the Member State in which the entity to be audited is registered. In such a case the entity shall disclose which body carries out these functions and how it is composed.</p> <p>6. Member States may exempt from the obligation to have an audit committee:</p> <p>(a) any public-interest entity which is a subsidiary undertaking within the meaning of Article 1 of Directive 83/349/EEC if the entity complies with the requirements in paragraphs 1 to 4 of this Article at group level;</p> <p>(b) any public-interest entity which is a collective investment undertaking as defined in Article 1(2) of Directive 85/611/EEC. Member States may also exempt public-interest entities the sole object of which is the collective investment of capital provided by the public, which operate on the principle of risk spreading and which do not seek to take legal or management control over any of the issuers of its underlying investments, provided that those collective investment undertakings are authorised and subject to supervision by competent authorities and that they have a depositary exercising functions equivalent to those under Directive 85/611/EEC;</p> <p>(c) any public-interest entity the sole business of</p>		<p>statements and report any findings to the Board of Directors; and</p> <p>1.9. deliver opinions to the Board of Directors on any matters submitted to it by the Board of Directors, or that the committee wishes to address.</p> <p>The Law on banks, microfinance institutions and non bank financial institutions also requires microfinance institutions to have an audit committee which includes and is chaired by a non executive member of the Board of Directors, and at least one member of the committee may be an outside expert in the field of accounting or audit</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>which is to act as issuer of asset-backed securities as defined in Article 2(5) of Commission Regulation (EC) No 809/ 2004 (2). In such instances, the Member State shall require the entity to explain to the public the reasons for which it considers it not appropriate to have either an audit committee or an administrative or supervisory body entrusted to carry out the functions of an audit committee;</p> <p>(d) any credit institution within the meaning of Article 1(1) of Directive 2000/12/EC whose shares are not admitted to trading on a regulated market of any Member State within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC and which has, in a continuous or repeated manner, issued only debt securities, provided that the total nominal amount of all such debt securities remains below EUR 100 000 000 and that it has not published a prospectus under Directive 2003/71/EC.</p>		
<p><i>Article 42</i> Independence 1. In addition to the provisions laid down in Articles 22 and 24, Member States shall ensure that statutory auditors or audit firms that carry out the statutory audit of a public-interest entity:</p> <p>(a) confirm annually in writing to the audit committee their independence from the audited public-interest entity;</p>		<p>No reference in the Law</p> <p>The Law on Banks, microfinance institutions and non bank financial institutions prescribes that the Central Bank may prescribe by regulation a requirement for rotation of auditors or engagement partners of audit firms after</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>(b) disclose annually to the audit committee any additional services provided to the audited entity; and</p> <p>(c) discuss with the audit committee the threats to their independence and the safeguards applied to mitigate those threats as documented by them pursuant to Article 22(3).</p> <p>2. Member States shall ensure that the key audit partner(s) responsible for carrying out a statutory audit rotate(s) from the audit engagement within a maximum period of seven years from the date of appointment and is/are allowed to participate in the audit of the audited entity again after a period of at least two years.</p> <p>3. The statutory auditor or the key audit partner who carries out a statutory audit on behalf of an audit firm shall not be allowed to take up a key management position in the audited entity before a period of at least two years has elapsed since he or she resigned as a statutory auditor or key audit partner from the audit engagement.</p>		<p>a specified period of time to ensure continued independence. The CBK shall have authority to require the removal or replacement of an auditor, or to directly appoint, remove, or replace an auditor, at the expense of the bank to do a re-audit, if the bank or the auditor fails to meet the requirements of this Article or where the CBK is not reasonably satisfied with the auditor's performance.</p>
<p><i>Article 43</i></p> <p>Quality assurance</p> <p>The quality assurance review referred to in Article 29 shall be carried out at least every three years for statutory auditors or audit firms that carry out statutory audits of public-interest entities.</p>		<p>There is no reference to quality assurance review in the Law for statutory auditors or audit firms that carry out statutory audits of public-interest entities.</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p><i>Article 44</i> Approval of auditors from third countries 1. Subject to reciprocity, the competent authorities of a Member State may approve a third-country auditor as statutory auditor if that person has furnished proof that he or she complies with requirements equivalent to those laid down in Articles 4 and 6 to 13. 2. The competent authorities of a Member State shall, before granting approval to a third-country auditor who meets the requirements of paragraph 1, apply the requirements laid down in Article 14.</p>	<p>Article 21 Conditions 4. KCFR may license foreign auditors to undertake statutory auditing in Kosovo; however they must comply with the minimum requirements set out in paragraph 1 of this Article.</p>	<p>Council, as a competent authority, may issue an audit licence to foreign auditors if they fulfil the requirements</p>
<p><i>Article 45</i> Registration and oversight of third-country auditors and audit entities 1. The competent authorities of a Member State shall, in accordance with Articles 15 to 17, register every third-country auditor and audit entity that provides an audit report concerning the annual or consolidated accounts of a company incorporated outwith the Community whose transferable securities are admitted to trading on a regulated market of that Member State within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC, except when the company is an issuer exclusively</p>		<p>No such provision in the Law</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>of debt securities admitted to trading on a regulated market in a Member State within the meaning of Article 2(1)(b) of Directive 2004/109/EC (1), the denomination per unit of which is at least EUR 50 000 or, in case of debt securities denominated in another currency, equivalent, at the date of issue, to at least EUR 50 000.</p> <p>2. Articles 18 and 19 shall apply.</p> <p>3. Member States shall subject registered third-country auditors and audit entities to their systems of oversight, their quality assurance systems and their systems of investigation and penalties. A Member State may exempt a registered third-country auditor or audit entity from being subject to its quality assurance system if another Member State's or third country's system of quality assurance that has been assessed as equivalent in accordance with Article 46 has carried out a quality review of the third-country auditor or audit entity concerned during the previous three years.</p> <p>4. Without prejudice to Article 46, audit reports concerning annual accounts or consolidated accounts referred to in paragraph 1 of this Article issued by third-country auditors or audit entities that are not registered in the Member State shall have no legal effect in that Member State.</p> <p>5. A Member State may register a third-country audit entity only if:</p> <p>(a) it meets requirements which are equivalent to</p>	<p>Article 21 Conditions</p> <p>5. KCFR licenses local and foreign audit firms if they:</p> <p>5.1. have an office in Kosovo;</p>	<p>KFRC may register a foreign audit firm if it fulfils the requirements laid down by the Law. The Law does not require firm to publish transparency report. (also see comments for article 3 of the</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>those laid down in Article 3(3);</p> <p>(b) the majority of the members of the administrative or management body of the third-country audit entity meet requirements which are equivalent to those laid down in Articles 4 to 10;</p> <p>(c) the third-country auditor carrying out the audit on behalf of the third-country audit entity meets requirements which are equivalent to those laid down in Articles 4 to 10;</p> <p>(d) the audits of the annual or consolidated accounts referred to in paragraph 1 are carried out in accordance with international auditing standards as referred to in Article 26, as well as the requirements laid down in Articles 22, 24 and 25, or with equivalent standards and requirements;</p> <p>(e) it publishes on its website an annual transparency report which includes the information referred to in Article 40 or it complies with equivalent disclosure requirements.</p> <p>6. In order to ensure uniform application of paragraph 5(d), the equivalence referred to therein shall be assessed by the Commission in cooperation with Member States and shall be decided upon by the Commission in accordance with the regulatory procedure referred to in Article 48(2). Member States may assess the equivalence referred to in paragraph 5(d) of this Article as long as the Commission has not taken such a decision. In this context, the Commission may adopt measures</p>	<p>5.2. establish a business organization registered in Kosovo, with at least two (2) licensed Auditors, under this law;</p> <p>5.3. it is managed by Auditors, members of a licensed professional accounting and auditing association in Kosovo.</p> <p>6. KCFR approves a foreign or local auditing firm only if it complies with the Law on Business Organizations and the business is registered as:</p> <p>6.1. an individual business with a Auditor as manager;</p> <p>6.2. a general or limited liability partnership with all managing partners;</p> <p>6.3. a limited liability company with the majority of voting rights retained by the manager in such a way that, under the firm charter, the key partners are enabled to administer their general policies or to amend its charter.</p> <p>7. Persons who are licensed by KCFR as foreign Auditors can become managers of an audit firm registered in Kosovo, if they hold at least the majority of voting rights in the management board or to retain such rights which, under the charter of the firm, enable them to manage their general policies or to amend its charter.</p>	<p>Directive)</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>aimed at establishing general equivalence criteria in accordance with the requirements laid down in Articles 22, 24, 25 and 26 which are applicable to all third countries and which shall be used by Member States when assessing equivalence at national level. The criteria may not exceed the requirements laid down in Articles 22, 24, 25 and 26. Those measures, designed to amend non-essential elements of this Directive by supplementing it, shall be adopted in accordance with the regulatory procedure with scrutiny referred to in Article 48(2a).</p>		
<p><i>Article 46</i> Derogation in the case of equivalence 1. Member States may disapply or modify the requirements in Article 45(1) and (3) on the basis of reciprocity only if the third country auditors or audit entities are subject to systems of public oversight, quality assurance and investigations and penalties in the third country that meet requirements equivalent to those of Articles 29, 30 and 32. 2. In order to ensure uniform application of paragraph 1, the equivalence referred to therein shall be assessed by the Commission in cooperation with Member States and shall be decided upon by the Commission in accordance with the regulatory procedure referred to in Article 48(2). Member</p>		<p>No such provision in the Law</p>

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>States may assess the equivalence referred to in paragraph 1 of this Article or rely on the assessments carried out by other Member States as long as the Commission has not taken such a decision. If the Commission decides that the requirement of equivalence referred to in paragraph 1 of this Article is not complied with, it may allow the auditors and audit entities concerned to continue their audit activities in accordance with the requirements of the relevant Member State during an appropriate transitional period. In this context, the Commission may adopt measures aimed at establishing general equivalence criteria in accordance with the requirements laid down in Articles 29, 30 and 32 which are applicable to all third countries and which shall be used by Member States when assessing equivalence at national level. The criteria may not exceed the requirements laid down in Articles 29, 30 and 32. Those measures, designed to amend non essential elements of this Directive by supplementing it, shall be adopted in accordance with the regulatory procedure with scrutiny referred to in Article 48(2a).</p> <p>3. Member States shall communicate to the Commission:</p> <p>(a) their assessments of the equivalence referred to in paragraph 2; and</p> <p>(b) the main elements of their cooperative arrangements with third country systems of public</p>		

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
oversight, quality assurance and investigations and penalties, on the basis of paragraph 1.		
<p><i>Article 47</i> Cooperation with competent authorities from third countries 1. Member States may allow the transfer to the competent authorities of a third country of audit working papers or other documents held by statutory auditors or audit firms approved by them, provided that:</p> <ul style="list-style-type: none"> (a) those audit working papers or other documents relate to audits of companies which have issued securities in that third country or which form part of a group issuing statutory consolidated accounts in that third country; (b) the transfer takes place via the home competent authorities to the competent authorities of that third country and at their request; (c) the competent authorities of the third country concerned meet requirements which have been declared adequate in accordance with paragraph 3; (d) there are working arrangements on the basis of 		No such provision in the Law

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>reciprocity agreed between the competent authorities concerned;</p> <p>(e) the transfer of personal data to the third country is in accordance with Chapter IV of Directive 95/46/EC.</p> <p>2. The working arrangements referred to in paragraph 1(d) shall ensure that:</p> <p>(a) justification as to the purpose of the request for audit working papers and other documents is provided by the competent authorities;</p> <p>(b) the persons employed or formerly employed by the competent authorities of the third country that receive the information are subject to obligations of professional secrecy;</p> <p>(c) the competent authorities of the third country may use audit working papers and other documents only for the exercise of their functions of public oversight, quality assurance and investigations that meet requirements equivalent to those of Articles 29, 30 and 32;</p> <p>(d) the request from a competent authority of a third country for audit working papers or other documents held by a statutory auditor or audit firm can be refused:</p> <ul style="list-style-type: none"> — where the provision of those working papers or documents would adversely affect the sovereignty, security or public order of the Community or of the requested Member State, or — where judicial proceedings have already been 		

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>initiated in respect of the same actions and against the same persons before the authorities of the requested Member State.</p> <p>3. In order to ensure uniform application of paragraph 1(c), the adequacy referred to therein shall be assessed by the Commission in cooperation with Member States and shall be decided upon by the Commission in accordance with the regulatory procedure referred to in Article 48(2). Member States shall take the measures necessary to comply with the Commission's Decision. Such assessment of adequacy shall be based on the requirements of Article 36 or essentially equivalent functional results. Any measures taken in this context, designed to amend non essential elements of this Directive by supplementing it and aiming at facilitating cooperation between competent authorities shall be adopted in accordance with the regulatory procedure with scrutiny referred to in Article 48(2a).</p> <p>4. In exceptional cases and by way of derogation from paragraph 1, Member States may allow statutory auditors and audit firms approved by them to transfer audit working papers and other documents directly to the competent authorities of a third country, provided that:</p> <p>(a) investigations have been initiated by the competent authorities in that third country;</p> <p>(b) the transfer does not conflict with the</p>		

Article from the Eighth Directive	Relevant Law in Kosovo	Comment
<p>obligations with which statutory auditors and audit firms are required to comply in relation to the transfer of audit working papers and other documents to their home competent authority;</p> <p>(c) there are working arrangements with the competent authorities of that third country that allow the competent authorities in the Member State reciprocal direct access to audit working papers and other documents of that third country's audit entities;</p> <p>(d) the requesting competent authority of the third country informs in advance the home competent authority of the statutory auditor or audit firm of each direct request for information, indicating the reasons there for;</p> <p>(e) the conditions referred to in paragraph 2 are respected.</p> <p>5. The Commission may specify the exceptional cases referred to in paragraph 4 of this Article in order to facilitate cooperation between competent authorities and to ensure the uniform application of paragraph 4 of this Article. That measure, designed to amend non-essential elements of this Directive by supplementing it, shall be adopted in accordance with the regulatory procedure with scrutiny referred to in Article 48(2a).</p> <p>6. Member States shall communicate to the Commission the working arrangements referred to in paragraphs 1 and 4.</p>		



Centre for Financial Reporting Reform
Europe and Central Asia Region
The World Bank

Praterstrasse 31
1020 Vienna - Austria
T: +43 (0)1 2170 - 700
F: +43 (0)1 2170 - 701
cfr@worldbank.org
www.worldbank.org/cfr