

# TAKING STOCK OF REFORM IMPLEMENTATION AND PLANNING AHEAD

Ministry of Finance of Montenegro

*Vienna, 02 – 03 July 2019*  
*FRCoP workshop*

**CFRR** >>>

**Centre for Financial  
Reporting Reform**



Road to Europe: Program of Accounting  
Reform and Institutional Strengthening



EU-REPARIS is funded by the  
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**WB EDIF.**

# Summary of alignment status

	Transposition tables prepared	Laws drafted	Public consultations	Law passed
Accounting Directive	Yes	Yes	Yes	Adopted by Parliament
IAS Regulation	No <sup>1</sup>	Yes	Yes	Yes
Audit Directive	Yes	Yes	Yes	Adopted by Parliament
Audit Regulation	No	No	No	No

## GENERAL COMPLIANCE WITH EU FRAMEWORK

Definition of SMEs harmonized with the NEW accounting directive: **Yes**

Accounting standards used for SMEs: **IAS/IFRS** (with simplified financial reporting requirements)

Format of financial statements aligned with EU accounting directive: **In progress**

Adoption of a micro-regime: **Yes**

Audit Standards used: **Yes (ISA)**

	Legal requirement	System established	Built capacity?	Institution effective?
Public Oversight	Yes	Yes	Yes	Yes
Quality Assurance	Yes	By PoB <sup>2</sup> /MF	Yes	Yes

<sup>1</sup> IAS/IFRS already introduced since 2004.

<sup>2</sup> PoB established in June 2017.



# Audit Market

The state of play (2018):

Number of audit companies	28
Number of auditors working in audit companies	50
Audit engagements (ISAs)	368
Total hours for Audit engagements	56,176
Audit engagements of PIE	143
Other audit engagements	225



## Summary of alignment status

The Parliament of Montenegro adopted Law on Auditing on December 29, 2016.

Law on Auditing is harmonized with ***Directives 2006/43/EZ, 2008/30/EZ i 2014/56/EU*** on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC and ***Directive 2013/34/EU***.



## Summary of alignment status

Amendments in relation to the previous law:

- Approval of statutory auditors and audit firms,
- Professional ethics, independence, objectivity, confidentiality and professional secrecy,
- Quality assurance systems,
- Investigations and sanctions,
- Audit committee, etc.



## Summary of alignment status

Audit of financial statements is obligatory for:

- medium-sized undertakings,
- public interest entities,
- parent undertakings, which, together with subsidiary undertakings, meet the conditions of affiliation to a group of medium-sized undertakings,
- parent undertakings, which, together with subsidiary undertakings, meet the conditions of affiliation to the group of large undertakings,
- investment companies,



## Summary of alignment status

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- investment funds,
- investment fund management companies,
- voluntary pension funds,
- voluntary investment fund management companies; and
- other collective investment schemes.



## Summary of alignment status

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Statutory auditors and audit firms shall apply the principles of professional ethics in accordance with the **Code of Ethics for Professional Accountants** (article 8).





## Public Oversight Board – Audit Council

The Government of Montenegro appointed members of the PoB in June 2017.

A member of the Audit Council (PoB) may be a person who:

- a) Has at least a higher education qualification level,
- b) Has at least five years of work experience in accounting, auditing, finance or legal matters,
- c) Has not been convicted of a crime that makes him/her unworthy to carry out the responsibilities of the Audit Council.



## Public Oversight Board – Audit Council

### Members of the PoB:

- two representatives from the Ministry of Finance,
- one representative from the Central Bank of Montenegro,
- one representative from the Securities and Exchange Commission of Montenegro,
- one representative from "big 4" firms (auditor/audit partner).



# Public Oversight Board – Audit Council

The PoB has a function to monitor and enhance the audit practices in Montenegro.

The PoB competences:

- review and take position about the issues of the development and improvement of the auditing practice in Montenegro;
- monitor the process of auditing standards application;
- provide incentives for adequate and timely solutions for the most effective application of auditing standards;
- provide advice to policy makers, regulators, and the state authorities;
- provide the expert assistance to improve quality of financial reporting;



## Public Oversight Board – Audit Council cont.

- publish on its website the reports on the transparency of auditing firms or authorized auditors;
- issue opinion about the annual control plan of auditing firms and authorized auditors determined by the Ministry;
- issue an opinion on the program of continuing professional education of the authorized auditors;
- issue an opinion on the program of training of authorized officials; and
- perform other matters important for the implementation and improvement of the accounting and auditing practice in Montenegro.



# Department for Audit Oversight

Department for Audit Oversight is established in Directorate for Central Harmonization within the Ministry of Finance of Montenegro.

Department for Audit Oversight is responsible for oversight of audit companies and certified auditors (competent authority with ultimate responsibility).

Department for Audit Oversight started conducting inspections (oversight) in 2019.



# Capacity building for effective audit oversight

The Ministry of Finance, in cooperation with the World Bank implemented the project "Capacity building for effective audit oversight".

First part of the project was training of potential audit quality inspectors.

Second part was providing of expert assistance in improving of accounting and auditing legislation.

Third part was providing support to the Institute of Certified Accountants of Montenegro in obtaining of full membership status in the IFAC (International Federation of Accountants).



# Capacity building for effective audit oversight

An audit quality inspector has the obligation and authority to specifically control whether the auditing firm or certified auditor:

- Performing the audit in accordance with Law, the IAS and rules of the auditing profession;
- Meets the requirements of independence;
- Has the quantity and quality of the resources in accordance with auditing standards;
- Meets the requirements for the issuance of licenses to conduct audits, or for a license;
- Comply with the ethical requirements laid down in the Code of Ethics for Professional Accountants; and
- Controls how audit services fees are charged.



# Capacity building for effective audit oversight

To assist audit quality inspectors and audit companies the Ministry adopted:

- Recommendation and Guidelines for Minimum of Audit Methodology and Working Papers;
- Methodology and Manual for QA Inspectors.





# Annual Control Plan

In order to prepare and adopt Annual Control Plan of auditing firms and authorized auditors, the Ministry prepared a questionnaire for auditing companies, i.e. certified auditors, consisted of two parts ("Questionnaire 1 - General Information" and "Questionnaire 2 - Audit Engagements") for purpose of collecting preliminary information and risk analysis regarding:

- general information about authorized auditors and audit firms,
- the internal organization of the audit firms,
- relationship with other auditors and
- individual audit engagements.



# Annual Control Plan

The Ministry, in cooperation with the World Bank (CFRR), developed the following indicators used to create the Annual Control Plan:

- number of audit engagements of the audit company in relation to the total number of audit engagements of all audit companies in Montenegro;
- submitted transparency reports and questionnaires;
- number of audit engagements in relation to the number of audit staff;
- "hourly fee" indicator;
- number of PIEs audits;
- the number and types of audit opinions issued by audit firms;
- other available/supporting information.



## Oversight

Audit quality inspectors conducted oversight of an audit company and imposed the following measures in accordance with the Law on Auditing:

- the elimination of the identified deficiencies (specific documentation requirements – ISA 230, International Standard on Quality Control 1, etc.)
- improvement of the internal quality control system in carrying out audits, etc.

Audit quality inspectors imposed a penalty fine to the audit company in accordance with the Law on Auditing.

The Ministry of Finance adopted the following by-laws:

- Rulebook on Documentation for Acquiring Qualification of Certified Accountant,
- Rulebook on Sum Insured for Mandatory Third Party Liability Insurance for Auditing Firms and Authorised Auditors for Damages that Could be Made to a Person Subject of an Audit,
- Rulebook on the Manner and Deadlines for Conducting of Inventory and Alignment of Book-keeping Statement with Actual State.

The Ministry of Finance and ICAM are currently drafting new:

- Rulebook on the Content and Layout of Financial Statements, and
- Rulebook on Chart of Accounts.



# Challenge

- Adequate staffing for audit inspectors (necessary experience, skills and independence).
- Salaries of inspectors, with regard to the earnings in the public sector (considerably lower salaries than in the public sector).



# Challenge

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- The key medium-term challenge is to develop capacity of the Department for Audit Oversight within the Ministry.
- So far we hired the main authorized official for audit oversight and one more audit quality inspector.
- Planning on hiring one more audit quality inspector by the end of 2019.

Thank you.