

# ROSC

## REPORT ON THE OBSERVANCE OF STANDARDS AND CODES



ACCOUNTING  
AND AUDITING

**MONTENEGRO**

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# ABBREVIATIONS



<b>AAARS</b>	Association of Accountants and Auditors of Republic Srpska
<b>ACCA</b>	Association of Chartered Certified Accountants
<b>AGM</b>	Annual General Meeting
<b>CBCG</b>	Central Bank of Montenegro
<b>CMA</b>	Capital Market Authority
<b>CPD</b>	Continuing Professional Development
<b>CSRD</b>	Corporate Sustainability Reporting Directive
<b>EC</b>	European Commission
<b>ECL</b>	Expected Credit Loss
<b>EFRA</b>	European Financial Reporting Advisory Group
<b>ESRS</b>	European Sustainability Reporting Standards
<b>EU</b>	European Union
<b>GDP</b>	Gross Domestic Product
<b>I&amp;D</b>	Investigation and Discipline
<b>IAAM</b>	Institute of Accountants and Auditors of Montenegro
<b>IAASB</b>	International Auditing and Assurance Standards Board
<b>IASB</b>	International Accounting Standards Board
<b>ICAM</b>	Institute of Certified Accountants of Montenegro
<b>IES</b>	International Education Standards
<b>IESBA</b>	International Ethics Standards Board for Accountants
<b>IFAC</b>	International Federation of Accountants
<b>IFIAR</b>	International Forum of Independent Audit Regulators
<b>IFRS</b>	International Financial Reporting Standards Accounting Standards
<b>IFRS(M)</b>	International Financial Reporting Standards Accounting Standards, the version endorsed by ICAM

<b>IFRS for SMEs</b>	International Financial Reporting Standard for Small and Medium-sized Entities Accounting Standard
<b>IPD</b>	Initial Professional Development
<b>ISA</b>	International Standards on Auditing
<b>ISAM</b>	Insurance State Agency of Montenegro
<b>ISA(M)</b>	International Standards on Auditing, the version endorsed by ICAM
<b>ISQC</b>	International Standard on Quality Control
<b>ISQM</b>	International Standards on Quality Management
<b>JSC</b>	Joint Stock Company
<b>LLC</b>	Limited Liability Company
<b>MD&amp;A</b>	Management Discussion and Analysis
<b>MNSE</b>	Montenegro Stock Exchange - Montenegroberza
<b>MOE</b>	Municipality-Owned Enterprise
<b>MoESI</b>	Ministry of Education, Science, and Innovation
<b>MoF</b>	Ministry of Finance
<b>MTP</b>	Multilateral Trading Platform
<b>NSSD</b>	National Strategy for Sustainable Development of Montenegro by 2030
<b>PAO</b>	Professional Accountancy Organization
<b>PIE</b>	Public Interest Entity
<b>QA</b>	Quality Assurance
<b>REPARIS for SMEs</b>	Road to Europe: Program of Accounting Reform and Institutional Strengthening for Small and Medium Enterprises
<b>ROSC A&amp;A</b>	Report on the Observance of Standards and Codes in Accounting and Auditing
<b>SAAA</b>	Serbian Association of Accountants and Auditors
<b>SAI</b>	Supreme Audit Institution
<b>SME</b>	Small or Medium-sized Enterprise
<b>SMO</b>	Statement of Membership Obligations
<b>SOE</b>	State-Owned Enterprise

## Exchange rates

\* €1 = US\$1.0666. (December 30, 2022)

\* €1 = US\$1.1050 (December 29, 2023)



# PREFACE

The Reports on the Observance of Standards and Codes, Accounting and Auditing (ROSC A&A) analyze comparability of national accounting and auditing standards with international standards, determine the degree with which applicable accounting and auditing standards are complied, and assess strengths and weaknesses of the institutional framework in supporting high-quality financial reporting. These reports form part of a joint initiative implemented by the World Bank and the International Monetary Fund to review the quality of implementation of internationally recognized standards and principles in 12 key areas (the ROSC program) with a view to promoting financial and economic stability.

This report provides an assessment of financial reporting and auditing requirements and practices within the corporate sector in Montenegro and sets forth areas for consideration for improving the institutional environment for accounting and auditing. The ROSC A&A uses international benchmarks of good practice governing financial reporting and auditing in the assessment, including International Financial Reporting Standards and International Standards on Auditing. This report was undertaken following a formal request from the Government of Montenegro and was conducted as part of the European Union funded *Road to Europe: Program of Accounting Reform and Institutional Strengthening for Small and Medium Enterprises (REPARIS for SMEs)*.



## ACKNOWLEDGEMENTS

The ROSC A&A was conducted by the World Bank team<sup>1</sup> during October-December 2023 and reflects findings until end December 2023.<sup>2</sup>

The review was conducted through a participatory process involving various in-country stakeholders, including the Ministry of Finance, the Central Bank of Montenegro, Insurance Supervision Agency of Montenegro, the Capital Market Authority of Montenegro, Montenegro Stock Exchange, Tax Administration, professional accountancy associations, auditing firms, academia, and other business communities.

The ROSC A&A team would particularly like to thank Minas Trubljanin, Director General of the Directorate

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<sup>1</sup> The World Bank team was led by Garik Sergeyan (Senior Financial Management Specialist) and included Pascal Frerejacque (Consultant), Svetlana Platon (Consultant), Natalia Konovalenko (Consultant), Darrel Scott (Consultant), Michael Wells (Consultant), and Aleksandra Radojevic (Consultant). The team worked under the supervision of Fabian Seiderer (Governance Practice Manager).

<sup>2</sup> Unless otherwise is stated in the text.



# EXECUTIVE SUMMARY

## Relevance and Use of Financial Information

**1. Montenegro is working to build a business climate that is conducive to private sector development and economic growth in a way that is both inclusive and respectful of the environment.** To achieve more sustainable and inclusive economic growth Montenegro must pursue robust and sustainable economic development, expediting European Union (EU) integration, and facilitating private sector investments, including foreign direct investment (FDI). In 2023, 65% of gross FDI was directed to equity investments,<sup>3</sup> highlighting the importance of transparent equity valuation in line with international financial reporting and auditing standards.

**2. Publicly available, high quality corporate financial reporting that is reliable, accurate, and comparable will promote increased confidence and trust by investors, lenders, and creditors.** High quality accounting, auditing, and disclosure in publicly available financial statements enable improved transparency and accountability. Compliant, verified financial statements are particularly helpful to foster the environment necessary for both financial sector and capital market development by attracting institutional investors. They help encourage enterprises to operate within the formal economy, thereby making it easier to ensure they are paying the appropriate level of taxation and contributing to improved fiscal sustainability.

**3. As part of its efforts to boost economic opportunities, the country needs to foster the**

**development of the accountancy profession.** Professional accountants play a key role in today's world. Accounting expertise is critical to enable businesses, large or small, to manage their operations effectively, access finance, and make properly informed decisions on a broad range of activities (investing, launching new products, recruiting, mitigating operational risks, and measuring their environmental, social, and governance impact). Financial information is used by several stakeholders: banks to make financial decisions on loan applications, the statistics authority to produce aggregate information; the tax authority to verify tax returns; the government to monitor the financial health of state-owned enterprises (SOE); bank and insurance national supervisors for checking the solvency of supervised entities, and last by not least by investors on capital markets to make investment decisions. Accountants in SOEs help ensure that the company's "owners"—that is, citizens—get the best value from the enterprise. Professional accountants should have the appropriate knowledge and skills to ensure they provide competent professional services. Accountants must act diligently and in accordance with applicable technical and professional standards. When acting as independent auditors, accountants uphold the public interest, and their work helps protect the interests of investors and other stakeholders. The auditors' recommendations also help to enhance the companies' accounting and control systems.

**4. The ROSC A&A for Montenegro analyzes corporate financial reporting and auditing practices to support the Government's efforts to (i) improve investment climate for Montenegrin companies; ii) foster trade competitiveness by allying standards of reporting and governance with practices that are prevalent in the**

<sup>3</sup> CBCG Bulletin, January 2024, page 27



EU and other main trading partners; and (iii) ensure greater transparency in both the private and the SOE sector.

## ■ Current Corporate Financial Reporting Framework and Its Main Challenges

5. The ROSC A&A assessment highlights the important progress made and remaining challenges (as presented in below paragraphs) to improve the country's corporate sector financial reporting and auditing framework and practices and align it with the EU acquis.

### Quality of Financial Reporting

6. In Montenegro, the legal and regulatory framework for financial reporting has been in place for a number of years. However, the overall quality of financial reporting suggests that regulators<sup>4</sup> should be performing a more detailed review of financial statements submitted/published by entities. Non-compliance is a feature to a greater or lesser extent in many markets; however, it is exacerbated in those markets where limited or no compliance reviews take place. Lack of resources and capacity at both regulator and industry level is a factor. Non-compliance undermines the significant effort that has been made to introduce and implement frameworks and potentially taints the reporting of those entities that are compliant.

7. The results of the ROSC's sample review<sup>5</sup> of financial statements and external auditor reports on those financial statements show areas for improvements in the application of accounting standards. Although there were some examples of good practice, the overall quality of financial reporting

needs improvement due to likely non-compliance identified in several areas. The banking sector financial statements reviewed generally appeared to be better presented than those of other public interest entities (PIE). Better presentation and disclosure were observed by large companies and those SMEs that are either subsidiaries of foreign companies or operate in the financial sector. However, all categories of financial statements reviewed were found in a need of improvement in respect of some pervasive likely non-compliance issues observed across all sectors; for example, inadequate disclosure of financial risk management and exposures, key sources of estimation uncertainties and other judgments, and insufficient disclosures about income taxes; shortfalls in using revaluation models for intangible assets, and application of wrong standards to some items (such as applying IAS 16 Property, Plant and Equipment to some of its non-bearer-plant biological assets); and inadequate impairment testing of financial and non-financial assets. Additional areas of likely non-compliance observed in SOEs' financial statements include incorrect accounting for treasury shares.

### Regulatory and Institutional Frameworks and Alignment with EU Legislation

8. The legal framework for accounting and financial reporting is fragmented which is affecting its implementation. The current general reporting requirements are contained within the Law on Accounting, the Law on Auditing, the Company Law, and other laws as applicable. Within these laws, there are duplications, gaps, and contradictions. Certain requirements that would logically belong under one law are instead contained under a different law. The effect is to frequently make the law difficult to understand and difficult to comply with, and in some circumstances to force entities to decide which law they are going to comply with. As part of the current process to amend these laws, consideration should be given to optimizing and streamlining the structures

<sup>4</sup> Details on regulators and their authority can be found in paragraphs 66-70 and 76-78.

<sup>5</sup> A total of 55 sets of annual financial statements were reviewed of which 15 sets were prepared by PIEs (banks, insurance companies, SOEs, etc.) and 40 sets prepared by SMEs. For details of the review refer to *Section II.C. OBSERVED FINANCIAL REPORTING PRACTICES AND PERCEPTIONS* of the report.

of the laws and to removing duplications, gaps, and contradictions.

**9. Montenegro should continue its efforts to further align with EU legislation in the area of accounting, financial and sustainability reporting, auditing, and public oversight.** This will contribute to ongoing negotiations on EU accession and enhance the country's overall capacity to uphold the membership obligations. Further alignment is required:

a. **to improve the legal framework by introducing a differential financial reporting framework and removing the ambiguities and possible interpretations regarding the simplified financial reporting requirements for small and micro entities.** The Law on Accounting is based on full International Financial Reporting Standards (IFRS) Accounting Standards, which is too demanding for medium, small, and micro entities. By adopting and enforcing the Rulebook for accounting, the regulator attempted to introduce simplified financial reporting requirements for certain categories of entities, which is not consistent with the requirement of the Law on Accounting. To address the inconsistency, it is recommended to introduce in the law a provision for differential (three- or four-tier) corporate financial reporting frameworks depending on the size and the significance of the public interest of the reporting entity:

- **IFRS Accounting Standards should only be required for individual and consolidated financial statements of PIEs.** This would require revision of the PIE definition. It is recommended that the definition fully comply with the PIE definition of the EU Accounting Directive. PIEs should still be subject to mandatory external audits and their audited financial statements should be filed and made publicly available. Their auditors should be subject to more stringent requirements, including having appropriate skills and resources for larger audits and a defined internal code of ethics that precludes holding shares in client entities.<sup>6</sup> Additional disclosure

requirements for PIEs, as mandated by the EU Accounting Directive but which are not in the scope of IFRS Accounting Standards, should be introduced.

- **Consideration could be given to adopting the IFRS for SMEs for individual and consolidated financial statements of medium-sized entities or to developing a local financial reporting standard compliant with the EU Accounting Directive.** These entities should be allowed to use IFRS Accounting Standards as an alternative framework. Although the IFRS for SMEs is not currently endorsed by the European Commission, a compatibility analysis conducted by EFRAG in 2010 revealed only 6 incompatibilities.<sup>7</sup> Since then, both the IFRS for SMEs and EU Directives have been amended, resulting in even fewer incompatibilities. The EU Accounting Directive does not prohibit Member States from requiring medium-sized enterprises to disclose information beyond what is required or permitted by the Directive, consequently the IFRS for SMEs could be a suitable option for medium-sized entities in Montenegro. Additional disclosure requirements for medium-sized enterprises, mandated by the EU Accounting Directive but not covered by IFRS Accounting Standards or the IFRS for SMEs, should be required for medium-sized enterprises. Mandatory external audits, filing, and publication of financial statements for medium-sized entities should be maintained as currently is. As an alternative framework to the IFRS for SMEs, consideration should be given to the development and adoption of a local financial reporting standard with different levels of disclosure to suit the needs of various categories of entities that are not PIEs.
- **Simplified financial reporting and disclosure requirements should be applied to small and micro entities as mandated by the EU acquis.** The accounting and disclosure requirements for micro entities could be further simplified by considering additional options or exemptions provided by the EU Accounting Directive.<sup>8</sup>

<sup>6</sup> In a similar way as regulated by EU Regulation No. 537/2014 regarding specific requirements for audits and auditors of PIEs.

<sup>7</sup> [https://efrag-website.azurewebsites.net/\(X\(1\)S\(uhlahbqjdzgsfth2yn4f41x\)\)/Activities/172/Compatibility-Analysis-IFRS-for-SMEs-and-the-Council-Directives](https://efrag-website.azurewebsites.net/(X(1)S(uhlahbqjdzgsfth2yn4f41x))/Activities/172/Compatibility-Analysis-IFRS-for-SMEs-and-the-Council-Directives)

<sup>8</sup> Deviations are permitted only with respect to other charges; however, for income, inventory, and staff costs, accrual accounting is still required.

Consideration should be given to further simplifications, such as: (i) allowing micro entities to deviate from accrual accounting as permitted by Article 36(1)(a) of the EU Accounting Directive; (ii) exempting them from the requirement to prepare notes to the financial statements, provided that information on the acquisition of own shares and the information required by Article 16(1)(d)<sup>9</sup> and (e)<sup>10</sup> is disclosed at the bottom of the balance sheet; (iii) exempting them from the obligation to prepare a management report, provided that information on the acquisition of own shares is included in the notes to the financial statements; and (iv) allowing micro entities to prepare an abridged balance sheet and an abridged profit and loss account.

- b. **to enhance public oversight and introduce specific requirements for audits and auditors of PIEs, as per EU Regulation No. 537/2014 providing specific requirements for audits and auditors of PIEs.** The following areas could benefit from better alignment with the EU acquis: (i) appointment of statutory auditors and the role of the audit committee, audit fees limitation in certain circumstances, including when non-audit services are provided by the same auditors; (ii) engagement quality control review before audit report and additional report to the audit committee are issued; (iii) preparation of an additional report to the audit committee; (iv) monitoring market quality and assessing the performance of audit committees; and (v) competition and international cooperation with regard to quality assurance reviews, investigations, and on-site inspections.
- c. **to introduce mandatory sustainability reporting and assurance of sustainability reporting.** Montenegro has no framework or legal requirement for sustainability reporting or assurance of sustainability reporting, although a few entities that are controlled by international entities already report this information to their parent entities. Consideration should be given to the EU Corporate Sustainability Reporting Directive

and the European Sustainability Reporting Standards.

#### 10. The stock market includes 255 individual stocks.

However, a significant number of these are never traded and many do not have any free float available for trading. This has the effect of overstating the exchange's market capitalization, and distorting volume information. Frequent (such as quarterly) reporting of financial information and the high number of individual stocks consume significant regulatory and management efforts to maintain the market, but for limited benefit. The stock exchange should consider simplifying its reporting requirements and strengthening its admission requirements.

11. **Montenegro has fragmented legal provisions and regulations on corporate governance, which need to be improved, particularly with regards to the audit committees' functions and responsibilities.** Currently only listed companies are subject to an explicit code of governance, with banks having corporate governance requirements incorporated into law or regulation, and others (for example insurers, SOEs) having no specific requirements. Good international practice suggests mandatory requirement for PIEs to establish an audit committee, while for non-PIE entities, it should be voluntary. Currently, all entities in Montenegro that are subject to mandatory audit are required to establish an audit committee, while in practice many audit committees are not working effectively, which undermines the role of audit committees. A consolidated Code of Governance for all PIEs should be issued by a single, centralized authority, either the Ministry of Finance (MoF), or a body mandated and capacitated by the MoF, coordinating with individual regulators. Consideration can be given to using the existing process at Capital Market Authority of Montenegro (CMA) as a base. The Consolidated Code of Governance for PIEs should be in line with the G20/OECD Principles of Corporate Governance (revised in 2023), particularly to address sustainability and resilience matters to help companies manage climate-related and other

<sup>9</sup> Article 16(1)(d) of EU Accounting Directive requires to disclose the total amount of any financial commitments, guarantees, or contingencies that are not included in the balance sheet, and an indication of the nature and form of any valuable security which has been provided; any commitments concerning pensions and affiliated or associated undertakings shall be disclosed separately.

<sup>10</sup> Article 16(1)(e) of EU Accounting Directive requires to disclose the amount of advances and credits granted to members of the administrative, managerial, and supervisory bodies, with indications of the interest rates, main conditions, and any amounts repaid or written off or waived, as well as commitments entered into on their behalf by way of guarantees of any kind, with an indication of the total for each category.

sustainability risks and opportunities. The code also should take into consideration the Recommendation of the Council on Guidelines on Corporate Governance of State-Owned Enterprises (adopted in 2015 and updated in 2024), with particular attention to the recommendation for SOEs to be subject to the same quality of disclosure, accountability, and transparency requirements as listed companies. It expects SOEs to set up appropriate specialized committees, particularly an audit committee composed of independent and qualified members to oversee disclosure, internal controls, and audit-related matters. The legal framework should be amended to ensure the consolidated Code is applied consistently, with monitoring of compliance and consequences for non-compliance.

## Monitoring and Enforcement of Financial Reporting

**12. The filing/publication arrangements in place in Montenegro would allow for making public the incomplete and unaudited data due to different submission deadlines for the financial statements and the audit report.** The current filing/publication requirements specify different deadlines for submission/publication of financial statements and audit reports as follows: (i) an annual filing for the preceding year including financial statements and a management report, in paper and electronic form, must be submitted by all entities no later than March 31 of the current year;<sup>11</sup> (ii) an annual filing for the preceding year including consolidated financial statements and a consolidated management report, where applicable, must be submitted in paper and electronic form no later than May 31 of the current year;<sup>12</sup> and (iii) all legal entities subject to mandatory audit are required to submit an audit report for the preceding year, in paper and electronic form, no later than June 30 of the current year.<sup>13</sup> While recognizing that the preparation of consolidated financial statements and audit reports need more time, hence those are submitted at a later stage, the current filing/

publication arrangements in place would allow for making public the incomplete and unaudited data.

**13. Having different submission deadlines for the financial statements and the audit report could impact the quality of decisions made by potential investors and other users.** The repository of the financial statements is maintained by the tax authority and the submission dates noted above mostly fit tax and statistical purposes. Verification of the submitted reports is done by the tax administration with a focus on taxation related requirements. As a result, potentially incomplete and unaudited data may be made publicly available; multiple iterations of the same data may be released to the public as financial statements are re-submitted over time; and little or no explanation is provided for changes in submitted data. The current arrangements contradict the provisions of the EU Accounting Directive, requiring that entities publish the approved annual financial statements and the management report together with the opinion submitted by the statutory auditors within a reasonable period of time. While information necessary for a completed tax submission and Information required for statistical purposes would be submitted on the appropriate date for tax compliance and statistics purposes, duly approved annual financial statements, the management report, and the audit opinion (where required) should be submitted/published on the same date and preferably only in one place.<sup>14</sup> Any later resubmission should require a reconciliation of the changes made.

**14. Additionally, it would be better if the database were managed separately from the operational tax authority, considering that the tax authority has limited obligation and authority as well as capacity over monitoring the compliance with the financial reporting standards.** Financial statements prepared and audited under international financial reporting frameworks target a broad range of primary users, that explicitly cannot request additional information from the reporting entity. Tax authorities' requirements are much narrower, focused on revenue, and they typically have power to demand additional information. The tax authority

<sup>11</sup> The Law on Accounting, Article 11

<sup>12</sup> The Law on Accounting, Article 17

<sup>13</sup> The Law on Auditing, Article 32

<sup>14</sup> Listed entities, insurance companies, banks, and other financial service providers are required to submit annual financial statements to their financial regulators, with the content, terms and manner of the preparation and submission deadlines prescribed by the respective regulator. All financial regulators publish the information submitted to them.

in Montenegro conducts only limited checks on the financial statements received, which include ensuring that all forms of the financial statements have been submitted and that complete statements are filed on time before the information becomes publicly available. The system also automatically checks that the balance sheet reconciles arithmetically, meaning that the total assets equal the equity and liabilities. However, there are no logical checks in place, such as verifying if financial statements are subject to mandatory audits or if the audit report is signed by an authorized auditor. Even if the total assets are presented as a negative amount, as long as it reconciles with the equity and liabilities, the system will accept the financial statements. Once all required fields are filled in and documents are uploaded, the system automatically accepts the financial statements without any follow-up verification of the uploaded information and the information becomes publicly available. Subsequent checks of the contents of the financial statements conducted by tax inspectors on the entity level focuses only on information necessary for tax compliance but not for compliance with the applicable financial and managerial/non-financial reporting requirements and standards.

**15. The Law on Accounting mandates the MoF and the tax administration to oversee the implementation of the law and of the regulations adopted pursuant to the Law.<sup>15</sup>** The tax administration performs only limited checks on the timeliness and completeness of all forms of financial reports (including statistical annexes) as well as audit reports submitted, including also checking whether those documents are submitted to sector regulators for banks and listed companies. The Law specifies that it is the role of the MoF to examine whether legal entities organize accounting operations and keep the books of account and accounting records in accordance with the Law on Accounting. The Law specifies fines<sup>16</sup> up to a maximum amount of €2,000 for failing to draw up financial statements in accordance with International Accounting Standards (IAS) or IFRS Accounting Standards published by the International Accounting Standards Board (IASB), in practice, however such sanctions are not enforced due to resource limitations for conducting IFRS-compliance reviews.

**16. The regulators of insurance companies and banks also are entitled to conduct review of the financial statements but the primary focus of supervision is on compliance with prudential reporting requirements, with only limited extension to conduct an IFRS Accounting Standards compliance review, with no reflection of IFRS non-compliance findings in the regulators' annual reports.** Due to limited capacity, neither the stock market regulator nor the stock exchange review financial statements of listed companies for compliance with IFRS Accounting Standards, and both rely on the external audit function. Annual publications by each of the regulators charged with reviewing financial statements should detail the material findings of reviews of financial statements. Effective reviews, and communicating the findings publicly, should result in proactive changes to the financial statements and/or to regulatory action being taken. Consideration should be given to incorporating the findings of these reviews in an aggregated and anonymized form in each of the annual reports of those regulators if they are relevant to entities under regulation. In addition, all material IFRS-relevant issues identified by various regulators should be consolidated and incorporated in a single report. This will have the benefit of enabling an understanding of the review process, providing an opportunity for other entities to learn from the experience of entities that have been subject to review and making all relevant and material information more easily accessible.

## Audit Oversight and Quality Assurance

**17. The audit oversight system in Montenegro is partially aligned with the provisions of the EU Audit Directive 2014/56 EU and the EU Audit Regulation but there is a need for further alignment.** Important EU provisions remain to be transposed, such as the need for regular monitoring, at least every three years, documenting and reporting to the European authorities the developments in the market for providing statutory audit services to PIEs, including, (a) the risk arising from high incidence of quality deficiencies of a statutory auditor or an audit firm,

<sup>15</sup> The Law on Accounting, Article 34

<sup>16</sup> The Law on Accounting, Article 38



the disruption in the provision of statutory audit services whether in a specific sector or across sectors, the further accumulation of risk of audit deficiencies and the impact on the overall stability of the financial sector, and the measures to mitigate those risks; (b) the market concentration levels; and (c) the performance of audit committees.

**18. In practice, the system of public oversight in Montenegro is still reestablishing itself after a period of non-operation and will need to upgrade the available resources and skills.** The MoF is responsible for audit oversight. It has established a two-tier oversight system with the Audit Council and Audit Oversight Division. The system was established in 2017 and performed progressively its duties until 2021 when it stopped working. It restarted at the beginning of 2023 and continues now. The Audit Council has an advisory role, while the Audit Oversight Division operates the system. This includes maintaining registers of audit firms and auditors, ensuring continuous professional development (CPD) requirements are met, and performing audit inspections. At the time of the assessment, the Audit Oversight Division had only one staff member, and the team needs to be expanded to include individuals with practical experience of auditing and preferably professional certification in accountancy. The Council should also bring in a broader range of skills and knowledge of audit, preferably including a chartered accountant. At the time of the assessment, the Audit Oversight Division had initiated the monitoring process for audits, but the only quality assurance inspector lacked the experience in accounting and auditing required in the law. The sole member of the Division has prepared an audit plan and started to undertake inspections, beginning with two member firms of international accounting networks; the inspection reports do not display the level of detail normally required in PIE audit reviews. A request to hire an additional member of quality assurance inspection staff with experience in auditing has been made. Two more positions will be advertised in 2024.

**19. The inspections are compliance oriented rather than fully fledged inspections of the audit firm and audit files.** Inspections review the functioning of the audit firm and make sure that it complies with all its legal obligations. In addition, the inspector/

authorized official responds to four questions based on the review of audit files: (i) whether the audit firm fulfills the conditions for performing audit activities as required in the Law on Auditing including governance arrangements, the contracting of professional liability insurance, and CPD of staff; (ii) whether the quantity and quality of resources are sufficient to perform audits, (iii) whether the audits of the files examined are in compliance with International Standards on Auditing (ISA); and (iv) whether the auditor remains independent of the auditee.

**20. The inspection reports do not provide enough information to support the conclusions on the adequacy of resources for the audit or how well the audit was performed.** The conclusions to questions (ii) and (iii) above are answered based on the organization of the audit files rather than on their content. For example, they do not include any critical review or information about how materiality is calculated, or how the key audit matters were chosen, and what were the substantive audit procedures. This kind of review requires critical experience that is acquired through proper accounting and auditing training and years of professional experience.

**21. The previous quality assurance division in the MoF reported conducting only six inspections from 2017 to 2020.** The division's last annual report mentions only six inspections, three member firms of international networks and three others. This is too few to review the whole system in three years as required by the Law on Auditing. The inspection reports are all published with the names of the inspected audit firms, the findings, and requests for improvements including a deadline. Requested improvements included to the quality of audit documentation and independence.

**22. There are no additional investigative powers or sanctions foreseen by the Law on Auditing beyond the quality assurance system and sanctions described in paragraph 292 below.** Investigative resources and discipline beyond the quality control system are not in place. There is no legal nor operational mechanism to investigate audit fraud or other wrongdoings of auditors or auditees revealed by the press or anonymously. The Audit Council does not appear to have any power to investigate such issues.

## State Owned Enterprises

**23. There are no specific laws governing SOEs. The SOEs that are incorporated as legal entities with economic activities follow the general requirements of the Commercial Law.** The previous Law on SOEs was abolished in 2010, and recently the government decided to develop a new law with the World Bank assistance.

**24. Likewise, there are no legal provisions for accounting and auditing specifically for SOEs, and those are regulated by the Law on Accounting and Law on Auditing like for any other commercial entities of similar size:** SOEs must use IFRS Accounting Standards for financial reporting and large and medium SOEs must undergo an independent audit under ISA. The introduction of a differential financial reporting framework would allow smaller SOEs to use simplified financial reporting.

**25. SOE ownership is fragmented and under the authority of a range of public institutions including line ministries, agencies, and independent funds (e.g. pension fund, employment fund) and under the financial monitoring of the MoF.**<sup>17</sup> The Government is considering a more centralized and unified ownership function for its main SOEs, with the World Bank assistance. The Fiscal Risk Division of the MoF monitors SOEs that are, directly or indirectly, majority owned by the Government. The MoF requires annual business plans as well as annual reports and prepares opinions for the approval of those by government. To adopt the business plan and the financial plan for the coming year, the government requires a positive opinion from the MoF. The opinion of the MoF is submitted to the Commission for Economic Policy and Financial System for consideration and approval.

**26. The MoF is implementing a monitoring tool on SOE-related fiscal risks (Health Check Tool) with the assistance of the International Monetary Fund. The system has been customized to monitor several structural and performance ratios for SOEs and the analysis is currently in progress.** The MoF plans to

present a report in 2024 to the government on the full portfolio of SOEs, based on the latest available data (2022). As of June 2024, the SOE division had analyzed almost all SOEs using the Health Check tool.

**27. Financial statements of SOEs are submitted on time to the financial statement repository managed by the tax authorities.** In 2024, all central SOEs monitored by the MoF submitted their 2023 financial statements before April 30, 2024. The submission date was extended from end of March to end of June 2024. Out of 31 audited SOEs financial statements for 2023, only 12 were concluded with an unmodified (clean) audit opinion, including 5 emphasis of matter. 18 audit reports had a qualified opinion, and one an adverse (negative) opinion.<sup>18</sup> The population of SOE auditors is not restricted and includes a wide variety of firms, not limited to member firms of international networks.

**28. There are no specific corporate governance requirements for SOEs.** Those SOEs that are generally limited liability companies (LLC) or joint-stock companies (JSC) are required to have an audit committee. In Montenegro, the audit committees are separate from the board of directors. The latter are usually closely related to the changes in the country's political landscape. Absence of transparent guidelines, policies, and procedures for selection and appointment of the members of the board of directors creates opportunities for corporate conflicts. The quality of audit committee in SOEs was found by the State Audit Institution (SAI) to be deficient. The SAI reported on the quality of the work of SOEs audit committees in 2021 in a horizontal report on the efficiency of the work of audit committees in companies with majority state ownership. The study was conducted across all sectors. The study found that out of 23 SOEs, audit committees were effective in only four, partially effective in four, and that in six companies it had either never been appointed or did not meet during a full year. The SAI issued several recommendations for audit committees including to better oversee the internal audit function and the effectiveness of internal controls and monitor the financial reporting process. Only 50 per cent of the

<sup>17</sup> Montenegro has a decentralized and highly fragmented model of ownership. MoF role has been very small to date, and the fiscal risk division has limited number of staffing.

<sup>18</sup> The adverse opinion pertains to the audit of the 2022 financial statements of the Post Office of Montenegro, for which one third of the balance sheet's assets is formed by land and buildings for which it is not possible for the auditors to ascertain the ownership.

audit committees made a recommendation on the selection of the external auditor and only one met with the external auditor. The oversight of the external audit function and the selection of the external auditor is one of the main objectives of an audit committee. This is linked with the selection of the external auditor through a public procurement process for SOEs, in which audit committees seem to have little influence.

## Accountancy Profession

**29. Several accountancy titles are used in Montenegro but only two are regulated by law.** Titles include bookkeeper, accounting technician, authorized accountant, certified accountant, and certified auditor. Only the last two are defined in law and regulated at the state level by the MoF as described in next paragraphs. Additionally, certain regulatory functions are delegated to the Institute of Certified Accountants of Montenegro (ICAM) pursuant to Government Decree. The ICAM is the only professional accountancy organization (PAO) in Montenegro to be a full member of International Federation of Accountants (IFAC). It is acknowledged by Government Decree as the competent authority for accounting and auditing activities referred to in the Law on Accounting and the Law on Auditing and is entrusted with regulatory tasks. Another PAO, the Institute of Accountants and Auditors of Montenegro (IAAM), is an associate member of IFAC. The IAAM does not have the same level of professional recognition by the MoF as the ICAM.

**30. The titles of bookkeeper and authorized accountant are not regulated by law but are defined by the Montenegrin Educational Accounting Standard, which was developed pursuant to the Law on Accounting and Government Decree.** A bookkeeper is a qualified person with some knowledge, experience, and competence in accounting and compiling financial statements. To acquire the title of bookkeeper a candidate needs to meet the following criteria: (i) high-school education; (ii) at least three years of practical work in accounting; and (iii) passed the PAO examination for bookkeeper. The authorized accountant is a qualified person who has the appropriate level of knowledge and experience for accounting, compiling financial statements, internal audit, external audit tasks, and other related services. To acquire the title of authorized accountant the

candidate should meet the following criteria: (i) have a university degree; (ii) at least three years of practical experience in accounting or financial reporting; and (iii) passed examination for authorized accountant.

**31. Certified auditors are regulated by the Law on Auditing, which outlines the procedures for licensing, registration, initial professional development (IPD), and CPD.** Certified auditors are required to satisfy the following criteria: (i) be a certified accountant; (ii) complete practical experience in auditing for a minimum of three years, of which at least two years are under the supervision of a certified auditor; and (iii) provide proof that they do not have criminal record. The law requires auditors to take part in CPD to maintain their theoretical knowledge, professional skills, and values at a sufficiently high level, carried out in line with the program established by the MoF in agreement with the Council of Audit and implemented by the MoF or a legal entity entrusted with performance of this task. In accordance with the Government Decree, tasks relating to the training of certified accountants and auditors at IPD and CPD level are delegated to the ICAM.

**32. Despite being regulated at the state level, accountancy certification is not required for the preparers of financial statements.** The Law on Accounting states only that persons responsible for keeping the books of account and the preparation of financial statements must not have been convicted of a crime. In order to enhance the quality of financial reporting in the country, it is recommended that the financial statements submitted in terms of the law be attested to by an appropriately qualified accountant. Financial statements should be prepared by an appropriately qualified accountant or a registered accounting agency that has the prerequisite, up to-date professional skills, as well as is subject to an ethical framework and an investigation and discipline (I&D) process. Accountability is enhanced when that responsible individual is required to attest to the correctness of submissions. Where financial statements are prepared by an inhouse accountant, the financial statements should be signed off by the designated accountant. Where the financial statements are prepared by an agency external to the submitting entity, the financial statements should be signed off by a responsible accountant within the agency. The designated accountant should possess skills proportionate to the responsibility assumed (so greater skills for greater responsibilities).



Registered and qualified accountants should meet minimum CPD requirements to ensure skill levels are maintained. In the event that the financial statements are subsequently found to be deficient, appropriate disciplinary action should be instigated against the responsible accountant.

## Setting Accounting and Audit Standards

**33. Montenegro should apply the most up to date version of IFRS Accounting Standards as published by the IASB and endorsed by the EU or clearly articulate the process for keeping the version of IFRS Accounting Standards endorsed by ICAM (IFRS(M)) updated.** Similarly, it should apply the current version of the ISA as published by the International Auditing and Assurance Standards Board (IAASB) or make clear the process for keeping ISA(M) updated.

**34. The latest version of IFRS Accounting Standards published by ICAM is dated 2018.** ICAM have additionally acquired the rights from the IFRS Foundation to translate IFRS 9 and IFRS 15, published separately in 2023. The translation of IFRS 17 is planned but not yet completed as it will not be applied before 2026. The temporary gap that exists between the full IFRS Accounting Standards as published by the IASB and IFRS(M) as applied for non-banks in Montenegro will progressively disappear between

2024 and 2026. Banks are the only enterprises that are mandated to use full IFRS as published by the IASB, and as a result their auditors are the only ones that refer to the IFRS Accounting Standards in their audit opinion. Listed companies that are not banks are using full IFRS, less IFRS 9 – Financial Instruments and IFRS 15 – Revenue, which will only become applicable in 2024. There is a list of 17 minor amendments to existing standards that are not yet translated. IFRS 17 and IFRS 9 will not be implemented for insurance companies before January 1, 2026. Early application of IFRS 17 and IFRS 9 is possible for all companies except for insurance companies.

**35. At the time of writing this report, the latest version of the ISA available to auditors in Montenegro was published in the 2016-2017 ISA Handbook.** Translation of the 2021 ISA Handbook is being completed and is expected to be published in 2024.

**36. A summary of the key recommendations identified as a result of the current ROSC A&A assessment are presented below in Table 1.** The detailed findings are set out in the report and the recommendations are discussed in *Section III: Key Findings and Areas for Consideration*. Overall, the recommendations are intended to improve the quality and reliability of financial and sustainability reporting and auditing practices in Montenegro, ultimately contributing to the stability and transparency of the country's financial system.

**Table 1.** Summary of recommended areas for consideration

#	Recommendations	Responsible	Dependencies	Deadline
<b>Regulatory and Institutional Framework</b>				
1	<p>Continue efforts to further align with EU legislation in the area of accounting, financial and sustainability reporting, auditing, and public oversight. This should particularly aim to:</p> <ul style="list-style-type: none"> <li>* improve the legal framework by removing ambiguities and simplify financial reporting requirements for small and micro entities.</li> <li>* enhance public oversight and introduce specific requirements for audits and auditors of PIEs.</li> <li>* introduce mandatory sustainability reporting and assurance of sustainability reporting.</li> </ul>	MoF	Amendments of law and/or regulations	Short to medium term

#	Recommendations	Responsible	Dependencies	Deadline
2	Introduce a tiered reporting framework (three or four tier) based on entity size and public interest significance, include simplified financial reporting requirements for small and micro entities.	MoF	Amendments of law and/or regulations	Short to medium term
3	Review, streamline, and optimize existing legal framework for corporate reporting. Address duplications, gaps, and contradictions in “general” reporting requirements within the legislation.	MoF	Amendments of law and/or regulations	Short term
4	Reconsider requirement for quarterly IFRS Accounting Standards/IFRS(M) reporting by entities.	Capital Markets Authority of Montenegro (CMA)/ Montenegro Stock Exchange (MNSE)	Amendments of law and/or regulations	Medium term
5	Consider simplifying the stock exchange reporting requirements and strengthening its admission requirements.	MoF, CMA, MNSE	Amendments of law and/or regulations	Medium term
6	Develop and adopt a consolidated Code of Corporate Governance for all PIEs. Update relevant laws and regulations to ensure its effective enforcement.	MoF, Central Bank of Montenegro (CBCG), the Insurance State Agency of Montenegro (ISAM), CMA	Amendments of law and/or regulations	Medium term
7	Strengthen the audit committee role and responsibilities.	MoF	Amendments of law	Short to medium term
8	Amend the legal framework defining the role of the audit committee in the process of appointing statutory auditors or audit firms for PIEs as mandated by EU acquis.  Revise the legal framework to ensure that statutory auditors cannot be dismissed without proper grounds.	MoF	Amendments of law	Short to medium term
<b>Monitoring and Enforcement of Financial Reporting</b>				
9	Refine and simplify the existing centralized database of corporate reporting. Approved annual financial statements, the management report, and the audit opinion (where required) should be submitted on the same date and preferably in only one place.	MoF, CBCG, CMA, ISAM	Amendments of law and regulations	Short to medium term

#	Recommendations	Responsible	Dependencies	Deadline
10	Regulators' monitoring of general purpose annual financial statements should include reviewing them against applicable financial reporting standards (such as IFRS(M)) on a proportional basis.	MoF, CBCG, CMA, ISAM	Budget allocation and training	Short term
11	Regulations should provide graduated sanctions, appropriate to the size and offence type, to facilitate enforcement of compliance with financial reporting and auditing standards' requirements. Available and new sanctions need to be applied as part of effective enforcement.	MoF, CBCG, CMA, ISAM	Amendments of law and/or regulations	Short term
12	General purpose financial statements and prudential/regulatory reporting should be distinguished more clearly in the regulations for banks and insurers.	CBCG, CMA, ISAM	Amendments of law and/or regulations	Medium term
13	Systematic collaboration between sector regulators and external auditors should be established.	CBCG, CMA, ISAM	Amendments of law and/or regulations	Short term
14	Annual publications by each of the stock market regulator (and or the MNSE), the banking regulator, the insurance regulator, and any other regulator charged with reviewing financial statements, should detail the material findings of reviews of financial statements.	MoF, CBCG, CMA, ISAM	Memorandum of Understanding	Short term

#### Audit Oversight and Quality Assurance

15	Consider increasing the skills and experience of the Audit Council.	MoF	Effective implementation of legal requirements	Short term
16	Consider hiring staff with experience in auditing to perform audit oversight.	MoF	Effective implementation of legal requirements	Short term
17	Introduce a risk-based approach to quality assurance reviews of statutory auditor and audit firms—at least every three years for those carrying out statutory audits of PIEs and at least every six years for all others.	MoF	Amendment of Law and/or regulations	Short term
18	Abolish transparency reports requirement for non-PIE audit firms.	MoF	Amendments of law and/or regulations	Short term
19	Introduce a mechanism to monitor, investigate, and prosecute problematic or failed audits based on information received, including adequate resources to investigate and sanctions that are proportionate to the failures.	MoF	Amendments of law and/or regulations	Short term

#	Recommendations	Responsible	Dependencies	Deadline
<b>Accountancy Profession</b>				
20	Require that financial statements submitted in terms of the law should be attested to by an appropriately qualified accountant.	MoF	Amendments of law and/or regulations	Short term
<b>Setting Accounting and Auditing Standards</b>				
21	Apply the most up to date version of IFRS Accounting Standards as published by the IASB and endorsed by EU or clearly articulate the process for keeping IFRS(M) updated. Similarly, apply the current version of the ISA as published by the IAASB or make clear the process for keeping ISA(M) updated.	MoF	Amendments of law and regulations	Short to medium term
22	Develop or adopt simplified financial reporting standards for lower tiers of corporate entities.	MoF	Regulations	Short term

37. An overall assessment of key accounting and auditing performance indicators is provided below, which confirms the remaining challenges.

**Table 2.** Summary of 2023 ROSC A&A ratings

Performance Indicators	Montenegro Rating <sup>19</sup>	Maximum Rating
<b>1. Financial Reporting and Auditing Standards<sup>20</sup></b>	<b>3</b>	<b>4</b>
A.1. Financial reporting standards	3	4
B.1. Auditing standards	3	4
<b>2. Commercial Enterprises (including SMEs)</b>	<b>2.5</b>	<b>4</b>
A.1. Simplified financial reporting	1	4
A.2. Exemptions to perform statutory audits	4	4

<sup>19</sup> ROSC A&A Rating Criteria:

1 = Minimum rating; criteria for “2” rating not met.

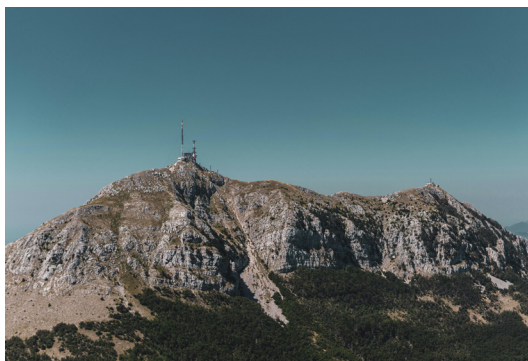
2 = Initial steps taken towards alignment with international good practice; however, significant gaps exist.

3 = Some alignment with international good practice; however, gaps remain.

4 = Substantial alignment with international good practice.

<sup>20</sup> This performance indicator relates to the adoption of international standards, performance indicators 2 to 6 relate to implementation and application of those standards.

Performance Indicators	Montenegro Rating <sup>19</sup>	Maximum Rating
<b>3. Financial Reporting and Auditing of Listed Companies</b>	<b>2.5</b>	<b>4</b>
A. Financial reporting and auditing requirements for listed companies	3	4
B. Monitoring and enforcement of the financial reporting requirements of listed companies	1.5	4
<b>4. Financial Reporting and Auditing for Banks</b>	<b>3.5</b>	<b>4</b>
A. Financial reporting and auditing requirements for banks	3.7	4
B. Monitoring and enforcement of the financial reporting requirements of banks	3.2	4
<b>5. Financial Reporting and Auditing for Insurance Companies</b>	<b>2.9</b>	<b>4</b>
A. Financial reporting and auditing requirements for insurance companies	3	4
B. Monitoring and enforcement of the financial reporting requirements of insurance companies	2.8	4
<b>6. Accountancy Profession</b>	<b>Partially Adopted</b>	<b>Adopted</b>
A. International Education Standards	Partially Adopted	Adopted
B. Code of ethics for professional accountants	Partially Adopted	Adopted
C. Investigative and disciplinary system	Partially Adopted	Adopted
<b>7. Audit Public Oversight</b>	<b>2.9</b>	<b>4</b>
A. Audit oversight system	3.3	4
B. Audit quality assurance	2.5	4
C. Audit quality investigations and sanctions	3	4



# I. INTRODUCTION

## Country Background

**38. Montenegro is a small, upper-middle-income economy that aspires to join the EU and reach European prosperity.** With a population of around 633,000<sup>21</sup> and a land area of approximately 13,812 square kilometers, it is located in Southeastern Europe on the Adriatic coast. The country has a limited range of economic opportunities, with tourism, energy, and services playing the main role in its economy. Its small size and limited economic opportunities create constraints for capacity and skills development and institution building. However, its location provides opportunities to access regional markets within the Western Balkans and the EU.

**39. Montenegro is a parliamentary republic; elections were held in 2023 and a new government was formed in October 2023.** Montenegro gained

independence in 2006 after a decade of political debate as well as a complex transition from a command-and-control to a market economy. The political situation remained relatively stable in the first decade after independence, but recent years saw an escalation in political polarization and increased uncertainty, which led to the suspension of legislative decision making in 2021. The ruling coalition's composition changed significantly after parliamentary elections in 2020, resulting in two no-confidence votes in the government in a year in 2022. Elections in 2023 resulted in a new Prime Minister and government.

**40. Montenegro's ambition to join the EU has strong public approval – supported by 80 percent of citizens – and the EU accession process has been an important factor for reform momentum.** The accession negotiations started in 2012, and since then a comprehensive set of legal frameworks

<sup>21</sup> 633,158 as per the 2023 Census

to align the local legislation with the EU *acquis* has been adopted. The most recent (November 2023) European Commission Progress Report on Montenegro<sup>22</sup> indicated that although progress on EU accession reforms largely stalled during the period of polarization and political instability, some progress was made in coping with competitive pressure and market forces within the EU. There had been limited progress on the 2022 recommendations with the adoption of the implementing act to the Law on Accounting, and moderate preparations towards developing a functioning market economy. The Progress Report advises adopting a new company law and a corporate accounting law.

**41. In the past fifteen years the country has experienced strong economic boom periods followed by bust periods.** Montenegro's growth outlook for 2023-2025 is positive (projected to average 3.1 percent) but challenged by global factors as well as by domestic political instability. As a tourism-dependent economy, the country suffered a recession due to the COVID-19 pandemic, with a 15.3 percent decline in GDP in 2020. A year later, as a result of strong tourism recovery, the economy rebounded by 13 percent growth. Inflation averaged 13 percent in 2022, with a peak at 17.5 percent in November 2022 declining to 15.1 percent in early 2023 (February), with a projection of 7.9 percent for 2023. In 2022 the unemployment rate declined to 14.7 percent from 16.7 percent in 2021. The poverty rate in 2022 was 17.2 percent.

**42. The financial sector maintains strong capital and liquidity buffers.** In December 2023, total loans were up by 11.9 percent on the previous year, driven by lending to households and nonresidents. At the same time, overall deposits were up by 4.8 percent, led by the general government and household sectors. The average capital adequacy ratio was a healthy 20.3 percent in December 2023, well above the regulatory minimum, while nonperforming loans declined to 5.8 percent of total gross loans from 6.3 percent in December 2022. Liquidity is ample, with liquid assets over total assets stood standing at 23.5 percent in December 2023. While the financial sector is stable, at

a time of rising global interest rates and rapid credit growth, it is important to closely monitor the risks. NPL ratios in Montenegro (6.3 percent)<sup>23</sup> are higher than the region's average and rising again after a shot decline in 2023 to 5.8 percent.

**43. SOEs continue to operate in key sectors of the economy but represent a relatively small share of GDP and employment.**<sup>24</sup> Concentrated predominantly in the transport, tourism, and energy sectors, SOEs face inefficiencies in allocation of public resources, as well as in other aspects including but not limited to incurring business losses and tax debts. The MoF is implementing a monitoring tool on the fiscal risk (health check) generated by SOEs with the assistance of the International Monetary Fund. The tool has been customized to monitor a number of structural and performance ratios for SOEs. Analysis is currently in progress.

## Linkage of this Report to Montenegro's Reform Agenda

**44. This assessment was conducted at the request of the Government of Montenegro.** The ROSC A&A has been conducted under the EU-funded Road to Europe: Program of Accounting Reform and Institutional Strengthening for Small and Medium Enterprises (REPARIS for SMEs), which fits well with the National Strategy for Sustainable Development of Montenegro by 2030 (NSSD) as well as the WB Country Partnership Framework (CPF) 2025-2028. Small and medium-sized enterprises (SMEs) make up 99.6 percent of the total number of enterprises in Montenegro and significantly contribute to economic growth and development, the competitiveness of the economy, and new employment, i.e., the introduction of the green economy in Montenegro. Montenegro's SME landscape is dominated by a large number of microenterprises in services, commensurate with the large contributions of the tourism sector to the

<sup>22</sup> [https://neighbourhood-enlargement.ec.europa.eu/system/files/2023-11/SWD\\_2023\\_694%20Montenegro%20report.pdf#page=94&zoom=100,92,252](https://neighbourhood-enlargement.ec.europa.eu/system/files/2023-11/SWD_2023_694%20Montenegro%20report.pdf#page=94&zoom=100,92,252)

<sup>23</sup> As of September 2024

<sup>24</sup> SOEs contribute about 5.5 percent of GDP and employ around 6 percent of the total workforce (*Economic Performance of State-Owned Enterprises in Emerging Economies, A Cross-country study*, EBRD, February 2020).



economy. SMEs contribute 77% of value added to GDP in 2020.<sup>25</sup> More than three quarters of national employment in Montenegro is generated by SMEs. The NSSD emphasizes the importance of developing SMEs and of strengthening and improving regulation in the field of financial intermediaries – from micro-financing to international banking – for better access to finance, particularly for SMEs.

**45. The CPF 2025-2028 seeks to support Montenegro in achieving more sustainable and inclusive economic growth and progressing toward EU accession. The Montenegro ROSC A&A 2023 assessment and its recommendations properly fits within both objectives of the CPF:** (i) better economic opportunities; and (ii) improved environmental outcomes. The ROSC A&A recommendations are designed to enhance the accountability and transparency of financial and non-financial information, which are essential elements of investor confidence, and would enable additional private capital to the economy. Streamlining and optimizing existing legal framework for corporate reporting and introducing tiered reporting framework based on entity size and public interest significance, including simplified financial reporting requirements for small and micro entities, would reduce the cost of doing business, particularly, for medium, small, and micro enterprises, and create better economic opportunities for local as well international investors. Better alignment of the financial reporting requirements with the EU legislation in the area of accounting, financial reporting and auditing would enhance the country's overall capacity to uphold the EU membership obligations and provide improved investment climate for foreign direct investments. The assessment also recommends introducing mandatory sustainability reporting and assurance of sustainability reporting, in line with the EU relevant requirements. The new reporting requirements will ensure that the information to assess the impact of companies on the environment; as well as to assess financial risks and opportunities arising from climate change is available to investors and other stakeholders. Better reporting on environmental and climate risks and opportunities will contribute to better decision making for improving environmental management and services; and strengthening climate change adaptation.

**46. The NSSD aims to build a transparent, stable, and predictable investment environment to encourage investments.** It highlights strengthening the regulatory framework and introducing incentive measures to bring the goals of the private sector closer to the development goals of the state. The NSSD identifies the World Bank's role in this agenda, together with other international development partners, to provide technical support and training focused on capacity development to strengthen the economic cooperation of domestic and foreign investors and the provision of insurance and necessary guarantees for investment. The NSSD also indicates national and regional development banks need to become more involved in the financing of sustainable development, including supporting the strengthening of SMEs.

**47. The objective of achieving the United Nations Sustainable Development Goals requires good corporate financial reporting.** The achievement of the Goals relies on dramatically increased public spending, which in turn needs to be funded by improved tax administration and a broader and deeper tax base. Corporate financial reporting quality and transparency help to improve corporates' access to capital and lower the cost of capital, thus enabling the economic growth that broadens and deepens the tax base and boosts the country's tax revenues. The increased transparency can also contribute towards strengthening the tax administration system that could potentially reduce tax evasion.

**48. Montenegro is committed to becoming an ecological state by its Constitution.<sup>26</sup>** As an ecological state, Montenegro aspires to maintain a balanced coexistence between economic development and the preservation of its natural environment. The NSSD encourages companies to develop a model of business behavior that includes awareness and concern for the environmental and social impacts of their own activities. When evaluating investments, companies should consider non-financial impacts as well as economic ones.

**49. Montenegro is aiming for decarbonization, which implies transforming the energy sector, transportation, and industry.** Montenegro has a low per capita emission, 1.8 ton of CO<sub>2</sub> compared to the world average of 4.8 ton per person in 2019. In 2021,

<sup>25</sup> OECD SME Policy Index – Western Balkans and Turkey 2022

<sup>26</sup> Constitution of Montenegro, Article 1



the government committed to decreasing greenhouse gas emissions by 35 percent below 1990 levels, by 2030. Montenegro's enhanced Nationally Determined Contribution is in line with EU Green Deal's objective for the continent to become climate neutral by 2050.<sup>27</sup>

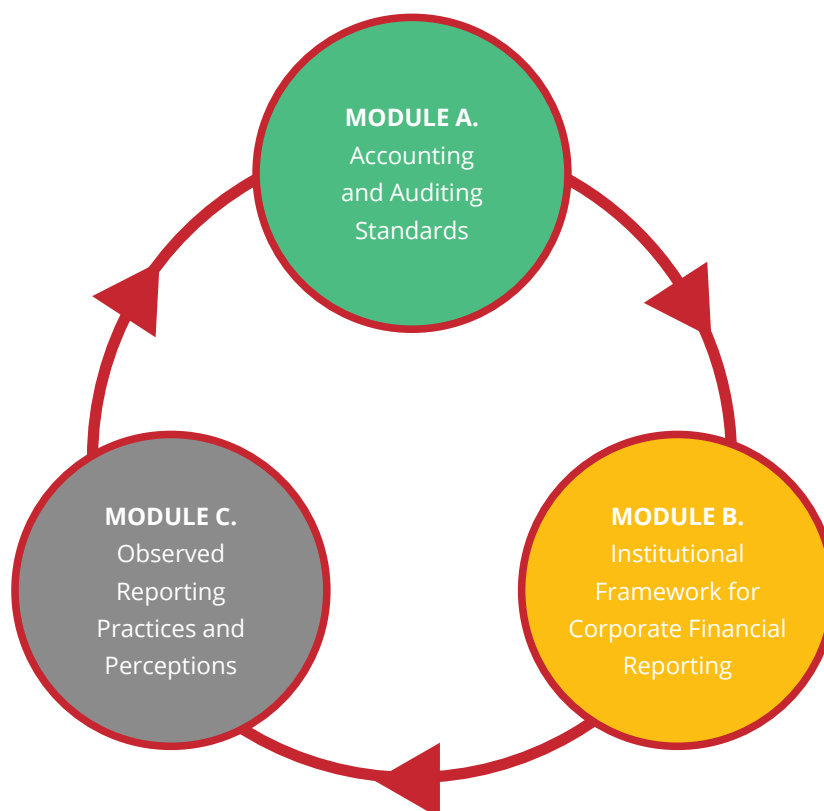
**50. Montenegro aims to achieve this reduction through:**<sup>28</sup> (i) a total of 18 mitigation measures, 14 in the energy sector, as the highest contributor to greenhouse gas emissions in the country; (ii) firm commitment to investments in renewable energy production and energy efficiency in public and private buildings/households; (iii) a basis for the introduction of carbon pricing through the introduction of a cap and trade scheme for major CO<sub>2</sub> emitters (industrial and energy plants); (iv) transfer of funds raised from the scheme into the Environmental Protection Fund to be used for environmental protection measures, support for renewables and innovation; (v) commitment to sustainable management of biodiversity, waters, and forests with reduced consumption of natural resources; (vi) build climate resilience by promoting climate innovations and increasing public support for climate solutions; (vii) use of mitigation measures which are gender

mainstreamed, based on gender-sensitive indicators and make it an integral part of all policies and actions at all levels.

## Methodology Applied

**51. The data and other information used for the assessment were gathered using the ROSC A&A 2.0 diagnostic (see Figure 1).** Practices were then benchmarked against international standards and good practices to provide the basis for the policy recommendations included in Section III: Key Findings and Areas for Consideration. The recommendations are intended to assist: (i) the promotion of private sector led growth through increased regulatory and market efficiency; (ii) development of financial and capital markets; and (iii) improved accountability and transparency (including sustainability reporting). Increasing the degree of alignment with international standards and good practices for corporate financial reporting is a key driver of improvement of the overall standard of corporate governance.

**Figure 1.** ROSC A&A 2.0 Assessment Methodology



<sup>27</sup> <https://www.undp.org/montenegro/press-releases/montenegro-increases-climate-ambition-cut-emissions-35-within-decade>

<sup>28</sup> <https://unfccc.int/sites/default/files/NDC/2022-06/Updated%20NDC%20for%20Montenegro.pdf>



## II. ASSESSMENT

### A. Accounting & Auditing Standards

52. This section assesses the extent to which the national accounting and auditing standards follow international benchmarks - IFRS Accounting Standards or the IFRS for SMEs accounting standards as well as ISA and ISQM 1&2<sup>29</sup> for auditing. The quality of national standards and how they are applied in practice impacts on the reliability and comparability of financial information for users, especially current or potential investors, lenders, and creditors. The national standard setting process is reviewed in Section II.B.10 *Setting Accounting and Auditing*

*Standards.* The application of national standards is reviewed in Section II.C *Observed Financial Reporting Practices and Perceptions.*

### Accounting Standards Gap

53. There is a disconnect between the accounting requirements stemming from the law, the regulation that implement the law – that is the Rulebook on the Forms of Financial statements, and actual practices.<sup>30</sup> Montenegro has a single level accounting framework set out in the Law on Accounting which requires IFRS Accounting Standards to be the

<sup>29</sup> International Standards on Quality Management (ISQM) 1 and 2 replaced International Standards on Quality Control (ISQC) in December 2020, and are effective from December 15, 2022.

<sup>30</sup> Rulebook on the content and form of the forms of financial statements for business companies and other legal entities (published in Official Gazette of Montenegro No. 011/20 on 06 March 2020); [https://assets-global.website-files.com/6458e788814cab18be394a81/6537cc6d5cc53b4a96d45faa\\_3.%20Pravilnik%20o%20sadrzini%20i%20formi%20obrazaca.pdf](https://assets-global.website-files.com/6458e788814cab18be394a81/6537cc6d5cc53b4a96d45faa_3.%20Pravilnik%20o%20sadrzini%20i%20formi%20obrazaca.pdf)

reference accounting standards. The Rulebook on the Forms of Financial Statements that operationalize some of the provisions of the law on accounting, limits the information that is published for medium-sized, small, and micro entities. While the provisions of this rulebook seek to transpose some of the dispositions of the EU Accounting Directive,<sup>31</sup> it may constrain the application of IFRS Accounting Standards. This implies that in practice publication of financial statements of Micro and SMEs are not IFRS compliant as endorsed by the Institute of Certified Accountants of Montenegro (ICAM). A review of sample financial statements of SMEs was conducted during the ROSC A&A assessment, which identified deficiencies in the quality of SME financial reporting. The details of the review are presented in Section II. C. *Observed Financial Reporting Practices and Perceptions* below.

**54. The Rulebook on the forms of financial statements follows the EU approach of “think small first,” limiting the notes required to alleviate the burden on micro, small, and medium sized entities.** When non-PIEs apply this guidance, the standards applied cannot be identified as IFRS Accounting Standards anymore. The Rulebook sets out information to be included in the notes according to the size of entity. For SMEs, the notes are limited. This follows the provisions of the EU acquis and EU policy. The rationale is in the transposition of the EU Accounting Directive 2013/34/EU,<sup>32</sup> which requires simpler disclosures for micro, small, and medium sized entities, hence SMEs are not required to disclose additional information even if it would be material under IFRS Accounting Standards.

**55. As the Law on Accounting recognize only IFRS as accounting standards for all companies, the accounting legal framework in Montenegro is not flexible enough to adapt to the capacity of micro, small, and medium sized entities, and thus does not fully implement the EU Accounting Framework.** The Accounting Directive provides for differentiated disclosure requirements depending on the size of the entity, with only limited disclosures for small entities and additional exemptions for micro entities; IFRS is mandated for consolidated financial statements of listed entities and may be applied for their individual financial statements; IFRS is permitted for

companies that are not listed. As an EU candidate country Montenegro should thrive to implement EU requirements.

**56. The local standard setting process is limited to the endorsement of IFRS Accounting Standards and their publication in local language, and the preparation of a rulebook.** ICAM publishes IFRS as prescribed by the IASB after completing an endorsement process. This process includes translation of the standards into the local language and consultations with various stakeholders impacted by the implementation of a new standard. The stakeholders include inter-alia the CBCG, the Insurance Supervision Agency of Montenegro (ISAM), the CMA, the MNSE, the MoF, the Audit Council, the tax administration, and companies that will be impacted by the standard. The consultations have delayed the application of new standards, because of their complexity and their impact on tax collection that needed to be assessed. Financial statements prepared and audited under international financial reporting frameworks target a broad range of primary users, that explicitly cannot request additional information from the reporting entity. Tax authorities' requirements are much narrower, focused on revenue. They typically have power to demand additional information. Consequently, tax authorities are not primary users. Tax authorities may however rely on financial statements as the entry point for assessing tax liabilities, and consequently the quality of financial reporting is important to effective tax collection. None-the-less, given the indirect link between financial statements and tax reporting, it is important that tax considerations are not an impediment to keeping financial reporting standards current with other stakeholder requirements.

**57. The IFRS Accounting Standards translation process is complex.** ICAM is very dependent on a tripartite agreement that it has with the Serbian Association of Accountants and Auditors (SAAA) and the Association of Accountants and Auditors of Republika Srpska (AAARS) of Bosnia and Herzegovina for obtaining translations of IFRS. The translation of the standards in Montenegro is based on the version translated by the SAAA and published on the website of the Serbian Ministry of Finance. A consortium

<sup>31</sup> 2013 Accounting Directive (Directive 2013/34/EU)

<sup>32</sup> Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements, and related reports of certain types of undertakings.

agreement gives the rights of the translation to ICAM. ICAM additionally acquired the rights from the IFRS Foundation to translate IFRS 9 and IFRS 15 (published separately in 2023). IFRS 17 is not yet translated as it will not be applied before 2026. The translation is planned but not yet completed.

**58. As a consequence of the complexity of the translation process and the endorsement process mechanism, Montenegro is not currently applying the full IFRS Accounting Standards, or IFRS as endorsed by the EU.** At the time of writing this report, a temporary gap exists between full IFRS as published by the IASB and IFRS as applied in Montenegro (hereinafter referred to as IFRS(M)). It is expected that this gap will progressively disappear between 2024 and 2026. The process for endorsing new standards delays the application of the standards.

**59. Banks are the only regulated entities that apply full IFRS Accounting Standards as published by the IASB, a requirement of their regulator, the CBCG; other PIEs apply standards that have not been updated to the latest.** As a result, banks' auditors are the only ones that refer to IFRS standards in their audit opinion. Listed companies that are not banks are using full IFRS, less IFRS 9 and IFRS 15, which will only become applicable in Montenegro in 2024. IFRS 17 and IFRS 9 will not be implemented for insurance companies in Montenegro before January 1, 2026. Early application is possible for all companies except for insurance companies for IFRS 17 and IFRS 9. There is also a long list<sup>33</sup> of recent (but minor) amendments that have been made by the IASB that are not applied in Montenegro as they are amendments that are not included in the IFRS Accounting Standards Handbook published in 2021 and were applicable in 2022 or 2023.

## Auditing Standards Gap

**60. The ICAM publishes ISA that are mandated by law for external audits.** The Law on Auditing requires audits to be carried out using ISA issued by the IAASB

and published by the MoF or a legal entity entrusted to carry out these tasks.<sup>34</sup> The MoF has delegated the task for publication to the ICAM.

**61. At the time of writing this report, the latest version of ISA available to auditors in Montenegro were published in the 2016-2017 Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements (ISA Handbook hereafter referred to as ISA(M)).** The Handbook is translated in cooperation with the SAAA based on the latest Handbook published by IAASB.

**62. A new translation of the 2021 version of the ISA Handbook is being completed and to be published in early 2025.** Several standards will be included since the last translation, including ISA 315 (revised 2019) – Identifying and Assessing the Risk of Material Misstatement; - ISA 540 (revised 2019) – Auditing Accounting Estimates and Related Disclosures; ISA 220 (revised)—Quality Management for an Audit of Financial Statement; ISQM1 – Quality Management for Firms that Perform Audit or Review of Financial Statements, or Assurance or Related Services Engagements; and ISQM 2 – Engagement Quality Reviews.

**63. Other standards published by the IAASB but not yet translated will only be applicable for audits of financial statements starting after December 15, 2023 and will be applied only when the new translation of the 2021 version is available.** These are: ISA 600 (revised) Special Considerations – Audit of Group Financial Statements (Including the Work of Component Auditors), ISA 700 (revised) – Opinion and Reporting on Financial Statements; and ISA 260 (revised) – Communication with Charged with Governance.

**64. The translation process slowed application of some ISA published by the IAASB in 2019 and 2020.** ISA 315 and ISA 220 were for mandatory application internationally since 2020 and 2021 respectively. Translated standards should be available as close as possible to effectiveness dates. Delays mean local

<sup>33</sup> See Annex

<sup>34</sup> The Law on Auditing, 2017, Article 3

company subsidiaries of international groups may be at risk of being audited with standards that are not up to date. One approach is to publish updated translations of applicable standards on the ICAM website ahead of translation of the next handbook.

## Performance Indicators – Financial Reporting and Auditing Standards

65. The overall rating attributed to Montenegro under the performance indicator “Financial Reporting and Auditing Standards” is 3, as the mean for both sub-indicators.

**Table 3.** Sub-indicator A. Financial reporting standards

A.1. Financial reporting standards		
Montenegro Rating	3	Financial Reporting Standards used in Montenegro are endorsed IFRS by Montenegro, which excludes IFRS 9 and IFRS 15, the application of which has been delayed to 2024. IFRS 17 application is delayed until 2026; early application is possible together with IFRS 9 for insurance companies
Rating Criteria	1	Criteria for “2” rating not met.
	2	A majority of adopted standards align or converge with IFRS.
	3	Most adopted standards align or converge with IFRS.
	4	All adopted standards align with IFRS.

**Table 4.** Sub-indicator B. Auditing standards

B.1. Auditing standards		
Montenegro Rating	3	ISA and ISQC1 are used in Montenegro. The application of the ISQM 1 and 2 is delayed to 2024.
Rating Criteria	1	Criteria for “2” rating not met.
	2	A majority of adopted standards align or converge with ISA and ISQC.
	3	Most adopted standards align or converge with ISA and ISQC.
	4	All adopted standards align with ISA and ISQC.

## B. Institutional Framework for Corporate Financial Reporting

66. The key regulator in the institutional framework for corporate financial reporting in Montenegro is the MoF,<sup>35</sup> which together with the tax administration oversees the implementation of the Law on Accounting.

67. The MoF's inspections are carried out in accordance with the law regulating inspection control,<sup>36</sup> and the Law on Accounting. Article 34 of the Law on Accounting specifies that the MoF inspector shall have the authority to examine:

- \* whether legal entities organize accounting operations in accordance with this Law,
- \* whether the books of account and accounting records are kept in accordance with this Law.

68. In addition to the obligations and powers determined by the law regulating the inspection control, the inspector of the tax administration shall have the obligation and authority to examine:

- \* the accuracy of classification of legal entities into micro, small, medium-sized, and large;
- \* the accuracy of classification of groups into micro, small, medium-sized, and large;
- \* whether legal entities submit to the tax administration annual financial statements, consolidated statements, management reports, and consolidated management reports, within the deadlines set forth in the Law on Accounting and whether they are duly published;
- \* whether financial statements contain a statistical annex;
- \* whether financial statements and consolidated financial statements have been signed by the responsible person;

- \* whether legal persons have submitted an audit report with an opinion on the audit performed, in writing and electronic form, to the tax administration within the prescribed time limit and whether it was duly published;
- \* whether the legal entities<sup>37</sup> have submitted to the CMA annual and quarterly financial statements within the prescribed time limit,
- \* whether the legal entities<sup>38</sup> have submitted to the CBCG or to the Insurance Supervision Agency of Montenegro, annual and quarterly financial statements within the prescribed time limit.

69. The Law on Auditing specifies that the MoF perform oversight of the implementation of the Law on Auditing and regulations adopted pursuant to this Law. Monitoring and improvement of audit practices is carried out by the Audit Council.

70. Commercial banks and other financial institutions are supervised by the CBCG, listed companies are supervised by the CMA, while the insurance industry is supervised by the ISAM. The primary focus of supervision is on compliance with prudential reporting requirements as well as with submission of both prudential and annual financial reports. Further details are provided below in relevant sections for each of the above industries. This report describes general regulatory, supervisory and enforcement powers of the financial regulators, as defined in law and regulations in Montenegro. However, an assessment has not been performed on the detailed implementation and application of those legal powers, other than as evidenced from (1) interviews with regulators and market participants, (2) the completion of detailed questionnaires by regulators, (3) a review of the external reports of regulators, and (4) a review of the quality of annual financial statements produced.

<sup>35</sup> The Directorate for Central Harmonization and Development of Internal Controls of the MoF

<sup>36</sup> The Law on Inspections, 2003 (latest update in 2016)

<sup>37</sup> The Law on Accounting, Article 18, paragraph 1

<sup>38</sup> The Law on Accounting, Article 18, paragraph 4



# 1. General Financial and Sustainability Reporting Requirements

## Financial Reporting and Auditing Exemptions and Simplifications for Commercial entities, including SMEs

*Commercial Enterprises (including SMEs)*

**71. The Law on Business Undertakings<sup>39</sup> (the Company Law) requires business activities in Montenegro to be carried out by an individual entrepreneur (as a natural person) or a company (as a legal person).** The company can be established as a general partnership, a limited partnership, a LLC, or a JSC. SOEs and municipality-owned enterprises (MOEs) can be established in the various forms as prescribed by the Company Law and are subject to general corporate financial reporting requirements. Only legal entities fall within the scope of the Law on Accounting in line with the requirements of the EU Accounting Directive.

**72. While there is overall progress in aligning Montenegro's legislation in the field of accounting and auditing with the EU acquis, some areas still need improvement.<sup>40</sup>** Each section of this report, where relevant, discusses areas that would benefit from better alignment.

**73. The Law on Accounting defines legal entities<sup>41</sup> and groups of entities<sup>42</sup> by size, and the classification is in line with the EU Accounting Directive.<sup>43</sup>** A micro-legal entity is an entity that, at the end of the reporting period, satisfies at least two of the following three criteria: (i) its average number of employees does not exceed 10; (ii) its net turnover does not exceed €700 thousand; and/or (iii) its total assets recorded on its balance sheet do not exceed €350 thousand. A small

legal entity/small group is an entity/group of entities that at the end of the reporting period, satisfies at least two of the following three criteria, which are on a consolidated basis for groups: (i) its average number of employees during the financial year is less than 50; (ii) its net turnover is less than €8 million; and/or (iii) its balance sheet total is less than €4 million. A medium-sized legal entity/group is an entity/group that is not a micro or small entity,<sup>44</sup> and, at the end of the reporting period, satisfies at least two of the following three criteria, which are on a consolidated basis for groups: (i) its average number of employees during the financial year is less than 250; (ii) its net turnover is less than €40 million; and/or (iii) its balance sheet total is less than €20 million. A large legal entity/group of entities is an entity/group which exceeds two of the three criteria for medium sized entities/groups, and which are on a consolidated basis for groups. A group may be categorized in a corresponding group according to its balance sheet total and its net turnover before consolidation eliminations, with an increase of 20 percent of the balance sheet total and net turnover.

**74. Overall, the PIE definition in the Law on Accounting is in line with the definition of PIEs in the EU Accounting Directive.** A PIE is a legal entity (i) with securities or other financial instruments admitted to trading on a regulated market; (ii) a bank or other financial institution; (iii) an insurance legal entity; or (iv) a legal entity designated in the category of large legal entities in accordance with Law on Accounting. This report discusses specific accounting, financial reporting, auditing, and corporate governance requirements for listed entities, banks, and insurance entities in separate chapters below.

**75. Other financial institutions classified as PIE include entities within the scope of the Law on Financial Leasing, Factoring, Purchase of Receivables, Micro-Lending, and Credit-Guarantee**

<sup>39</sup> The Company Law, 2020 (latest update in 2021)

<sup>40</sup> Detailed Transposition Tables, which benchmark the current legislation in the field of accounting and auditing to Directive 2006/43/EC (consolidated text as of 05 January 2023), Directive 2013/34/EU (consolidated text as of 05 January 2023), Regulation No 537/2014, and Regulation No 1606/2002, were prepared as part of this ROSC A&A assessment and submitted to the MoF.

<sup>41</sup> The Law on Accounting, Article 6

<sup>42</sup> The Law on Accounting, Article 10

<sup>43</sup> The European Commission has increased the thresholds by 25% to account for inflation, with a transposition deadline for member states of 24 December 2024 (<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32023L2775>).

<sup>44</sup> The Law on Accounting does not specifically require medium-sized groups to not be in the category of small groups. However, in practice, it is unlikely that a group that meets the criteria of a small group would declare itself as a medium-sized group.

**Operations.**<sup>45</sup> These entities are not significant for the economy (either due to the nature of their business, their size, or the number of their employees), consequently the requirement is too excessive and would necessitate the same approach as for listed companies, for example. The CBCG is mandated by the above law to license and carry out control of operations related to financial leasing, factoring, purchase of receivables, micro-lending, and credit guarantee (hereafter referred to as financial services providers, which can be founded as either a JSC or LLC). According to Article 113 of the above-mentioned law, financial service providers are subject to general accounting and financial reporting requirements as mandated by the Law on Accounting. Article 115<sup>46</sup> empowers the CBCG to prescribe the types, forms, and contents of reports in the scope of its control function, as well as submission deadlines.

#### *Accounting and Reporting Requirements*

**76. While the MoF is the key regulator in the institutional framework for corporate financial reporting in Montenegro, several tasks have been delegated to the ICAM** including the adoption and publication of IFRS Accounting Standards,<sup>47</sup> ISA,<sup>48</sup> and of the Code of Ethics<sup>49</sup> in the local language. Those and other functions related to the accountancy profession (see *Section II. B7: The Accountancy Profession*) have been delegated to the ICAM according to the Government Decree on Entrusting of Affairs of the Public Administration Bodies Competent for Accounting and Auditing (the Government Decree).<sup>50</sup>

**77. In addition to the above, the Government Decree has mandated the ICAM with additional tasks, not foreseen by either the Law on Accounting or the Law on Auditing.** Other delegated tasks include: (i) preparation and provision of instructions and

explanations to legal entities; and (ii) preparation of templates for financial statements and their publication in the Official Gazette. Regulations adopted by the ICAM, following the delegated tasks, and published in the Official Gazette, become mandatory for all legal entities. Neither the Law on Accounting nor the Law on Auditing mandates the MoF with the power to issue additional guidance on the application of international standards, or to adopt financial statement templates, or the chart of accounts.

**78. Authority is given to regulators to oversee financial reporting of listed companies, the banking sector, and the insurance sector.** The law prescribes that CMA, CBCG, and ISAM determine “the content, terms, and manner of the preparation and submission of the statements”<sup>51</sup> for listed companies, banks, and insurers.

**79. The Law on Accounting requires all legal entities to prepare annual financial statements in compliance with IFRS Accounting Standards, as published by the IASB and endorsed for application in Montenegro and published by the ICAM.**<sup>52</sup> The adopted version of IFRS differs from the current IASB version as explained in *Section II. A: Accounting and Auditing Standards* of this report. In addition, all entities are required to prepare and submit, together with their annual financial statements, a statistical annex.

**80. The Rulebook for accounting adopted by the ICAM**<sup>53</sup> prescribes the templates and the presentation of items in individual and consolidated financial statements of legal entities. The Rulebook for accounting mandates entities to disclose in the notes the information that is required by the EU Accounting Directive, depending on their size.<sup>54</sup> At the time this report was written, the team did not identify

<sup>45</sup> The Law on Financial Leasing, Factoring, Purchase of Receivables, Micro-lending and Credit-guarantee Operations (2017)

<sup>46</sup> The Law on Financial Leasing, Factoring, Purchase of Receivables, Micro-lending and Credit-guarantee Operations

<sup>47</sup> The Law on Accounting, Article 5

<sup>48</sup> The Law on Auditing, Article 3

<sup>49</sup> The Law on Accounting, Article 24

<sup>50</sup> The Government Decree on Entrusting of Affairs of the Public Administration Bodies Competent for Accounting and Auditing (published on July 23rd, 2007, and amended on May 20, 2011)

<sup>51</sup> The Law on Accounting, Article 18

<sup>52</sup> The Law on Accounting, Article 5

<sup>53</sup> The Rulebook is adopted by the ICAM following the delegated tasks as explained above, it is published in the Official Gazette and is for mandatory application by all entities.

<sup>54</sup> Article 26 of the Rulebook states that if any information in the Notes is disclosed as per the requirements of the Rulebook, and the same requirement exists in IFRS, the legal entity should not duplicate such information. Instead, it should disclose it only once.



any provisions in the Rulebook for accounting that would contradict, affect, or undermine the provisions of full IFRS Accounting Standards. However, when local regulators choose to develop templates for financial statements and chart of accounts to support the implementation of the IFRS Accounting Standards, they should ensure that there is enough capacity to align such regulations with the IFRS version adopted by the IASB. This is to avoid any gaps or possibility for different interpretations that may result in a situation where the presentation of financial statements becomes inconsistent with the presentation required in IFRS. The ICAM periodically publishes guidance on the application of IFRS Accounting Standards with examples of the accounting treatment of various transactions. The application of the guidance is not mandatory.<sup>55</sup> Entities and other interested parties, such as universities and training providers, can utilize this guidance to enhance their understanding of IFRS Accounting Standards. Legal entities are also required to apply a chart of accounts, adopted by the ICAM.

**81. Micro and small legal entities are required to submit<sup>56</sup> to the tax administration only a balance sheet, a profit and loss account, simplified notes, and a statistical annex.** This contradicts the general requirement on compliance with IFRS Accounting Standards. An entity shall not describe financial statements as complying with IFRS unless they comply with all requirements of IFRS.<sup>57</sup> The Law on Accounting does not specifically explain the content of simplified notes – this is instead detailed by the Rulebook for accounting and comprises the information that is required to be disclosed in notes by micro and

small entities in accordance with the EU Accounting Directive.

**82. Even though entities are classified by size in line with the EU Accounting Directive, there is no differential corporate financial reporting framework allowing for simplified disclosures and reporting requirements for small and micro entities.** The financial reporting framework mandated by the Law on Accounting for all entities in Montenegro is based on full IFRS Accounting Standards. Simplified disclosure requirements for small and micro entities are introduced only through the Rulebook for accounting, which undermines the proper application of IFRS and contradicts article 5<sup>58</sup> in the Law on Accounting. The IFRS for SMEs, or an equivalent, is not adopted in Montenegro.

**83. Parent entities are required to prepare consolidated financial statements,<sup>59</sup> subject to specified exemptions.** Exemptions include small groups of entities that do not incorporate a PIE and certain intermediate holding companies.<sup>60</sup> An entity that has issued securities or other financial instruments that are admitted to trading on a regulated market is not exempt under any circumstances.

**84. Large and medium-sized legal entities and listed entities are required to prepare and submit an annual management report and consolidated management report to the tax administration.** The content of the management report is determined by the Law on Accounting<sup>61</sup> and is largely in line with

<sup>55</sup> As mentioned above, only regulations adopted by the ICAM and published in the Official Gazette are of mandatory application.

<sup>56</sup> The last paragraph of Article 11 in the Law on Accounting can be subject to different interpretations. For example, one could understand that small and micro entities are obligated to apply full IFRS and prepare a full set of financial statements, as mandated by the first paragraph and the simplification pertains to submitting fewer statements and notes.

<sup>57</sup> Paragraph 16 of IAS 1 “Presentation of Financial Statements”

<sup>58</sup> The Law on Accounting, Article 5: “Legal entities shall draw up financial statements according to the IAS, or IFRS, published by the IASB and endorsed for application and published by the public administration body responsible for finance (the Ministry) or a legal entity entrusted with the performance of such tasks, which has obtained a translation and publication copyright from the relevant IFAC body.

<sup>59</sup> The Law on Accounting, Article 7

<sup>60</sup> A parent legal entity, which is also a subsidiary legal entity of another parent legal entity (the exempted legal entity) shall be exempted from the obligation to draw up consolidated annual financial statements and a consolidated management report where: (1) such parent legal entity is not an issuer of securities and other financial instruments admitted to trading on a regulated market; (2) such parent legal entity is controlled by another parent legal entity from any EU Member State; (3) another parent legal entity holds 90% or more of the shares in the parent legal entity and the remaining members of the legal entity have approved the exemption, (4) such parent legal entity and all of its subsidiary legal entities, except for legal entities not included in consolidation in accordance with law, are consolidated in the financial statements of another parent legal entity from any EU Member State; (5) the parent legal entity publishes annual consolidated financial reports, consolidated management reports and related audit reports. Points 2 and 4 shall apply from the date of the accession of Montenegro to the EU.

<sup>61</sup> The Law on Accounting, Article 12

the requirements of the EU Accounting Directive.<sup>62</sup> JSCs, insurance companies, banks and other financial institutions, clearing stock companies, stock exchanges, investment companies, investment funds, investment fund management companies, voluntary pension funds, voluntary investment fund management companies, and other collective investment schemes are required to prepare and submit an annual management report and consolidated management report regardless of their size.

**85. The Law on Accounting<sup>63</sup> states that the executive management and supervisory body of an entity are jointly liable for the preparation and publication of annual financial statements, management reports, and corporate governance statements, in accordance with the law, and for the preparation of consolidated financial statements, consolidated management reports, and consolidated corporate governance statements.** A person designated by an internal regulation of a legal entity,<sup>64</sup> who has not been convicted of a crime rendering them unfit to exercise accounting duties, is responsible for keeping accounts and preparing financial statements. There are no legal provisions regarding minimum education or professional qualification requirements for such a person.

#### *Auditing Requirements*

**86. Individual and consolidated financial statements of PIEs and medium-sized entities are subject to statutory audit.** Financial statements of investment companies, investment funds, investment fund management companies, voluntary pension funds, voluntary investment fund management companies, and other collective investment schemes are subject to annual statutory audit regardless of their size or PIE status.<sup>65</sup> Small and micro entities are exempted

from the obligation to perform annual audit. The audit report should also include an opinion on whether the management report is consistent with the financial statements for the same financial year and has been prepared in accordance with the provisions of the Law on Accounting.<sup>66</sup> As part of the audit of financial service providers' financial statements, auditors are required to notify the CBCG of any irregularities, facts, and circumstances that may jeopardize the operations of the financial service provider and may serve as grounds for revoking the license, in accordance with the law.<sup>67</sup> The audit should be carried out in accordance with the ISA as published by the IAASB and endorsed for application in Montenegro and published by ICAM.<sup>68</sup> Currently, the version of the ISAs adopted in Montenegro differs from the current IAASB version (see *Section II. A: Accounting and Auditing Standards*).

### **Other General Requirements and Arrangements**

#### *Non-Financial and Sustainability Reporting*

**87. EU provisions regarding the non-financial statement have been adopted in Montenegro's legal framework.** All large legal entities and parents of large groups, with more than 500 employees on their balance sheet date, are required to include a non-financial statement in either the management report or a separate report. The non-financial statement should contain the following information and data:<sup>69</sup> (i) a brief description of the business model of the legal entity, (ii) a description of the policies pursued by the legal entity in relation to social and employees matters, environmental protection, respect for human rights, and anti-corruption, including due diligence processes implemented, (iii) the outcome of those policies, (iv) the principal risks associated with the matters referred to in point ii linked to the

<sup>62</sup> However, although the law requires the disclosure of information regarding the acquisition of own shares, it does not specify what information should be disclosed, as mandated by Article 63(2) of Directive 2017/1132/EU. While small entities may be exempted from the requirement to prepare management reports, they must still disclose information about the acquisition of own shares in the notes to the financial statements; such provisions are missing in the local legislation.

<sup>63</sup> The Law on Accounting, Article 19

<sup>64</sup> The Law on Accounting, Article 21

<sup>65</sup> The Law on Auditing, Article 29

<sup>66</sup> The Law on Accounting, Article 15

<sup>67</sup> The Law on Financial Leasing, Factoring, Purchase of Receivables, Micro-lending and Credit-guarantee Operations, Article 114

<sup>68</sup> The Government Decree on Entrusting of Affairs of the Public Administration Bodies Competent for Accounting and Auditing.

<sup>69</sup> The Law on Accounting, Article 14

legal entity's operations, including, where relevant, its business relationships, products, or services which are likely to cause adverse impact in those areas, including how the legal entity manages those risks; and (v) non-financial key performance indicators relevant to the particular business. If a legal entity does not pursue the mentioned policies, the non-financial statement should provide a clear and reasoned explanation for not doing so. A subsidiary legal entity is exempt from preparing a non-financial statement if the information is already included in the consolidated management report or the separate non-financial statement of another legal entity. The Law on Accounting requires auditors to verify whether the non-financial statement has been provided.

**88. Montenegro has yet not transposed the CSRD<sup>70</sup> into its national legislation but has begun the initial stages of preparation.** The CSRD transposition will be led by the MoF who will draft the law and coordinate implementation with other ministries and agencies for the government, as it is responsible for overseeing the financial reporting legal infrastructure. The timing for implementation is not yet clear. Montenegro has had EU candidate status since 2010 and opened negotiations for accession in June 2012. It is committed to adopt EU law, including the CSRD, to implement sustainability standards, and have the sustainability reports reviewed by auditors. Some ICAM-initiated training on sustainability reporting took place in May and September 2023. While Montenegro implemented the non-financial reporting disposition of the EU Accounting Directive in 2014, it should also consider the required actions, resources, and timelines for adoption of the requirements of the CSRD, as well as the ESRS,<sup>71</sup> developed by the European Financial Reporting Advisory Group (EFRAG).

**89. PIEs engaged in extractive industries, or the logging of primary forests are required to prepare and submit a report on payments made to governments.** If the total amount of payments, whether made as a single payment or as a series of related payments, in cash or in kind, does not exceed €100 thousand in the financial year, the entity is exempt from the reporting obligation. The report on payments to governments discloses information

regarding the following types of payments: (i) royalties; (ii) dividends; (iii) signature, discovery, and production bonuses; (iv) license fees, rental fees, and other considerations for licenses and/or concessions, and other fees and payments for infrastructure improvements. The obligation to prepare the report on payments to governments does not apply to any parent entity or subsidiary when payments to governments are included in the consolidated report on payments to governments prepared by the parent entity. The report on payments to governments should be submitted to the tax administration by March 31. The content of the report on payments to governments largely aligns with the EU Accounting Directive. However, entities are not required to disclose production entitlements, taxes levied on the income, production, or profits of companies (excluding taxes levied on consumption such as value-added taxes, personal income taxes, or sales taxes), or to provide supporting notes to explain how the value of in-kind payments made to governments has been determined, as mandated by the EU acquis.

#### *Corporate Governance/Audit Committees*

**90. PIEs are required to include a statement in the management report and consolidated management report regarding the application of a corporate governance code.**<sup>72</sup> According to the Law on Accounting,<sup>73</sup> this statement should provide information about the corporate governance code applicable to the entity, any voluntary application of corporate governance codes, and any non-mandatory corporate governance practices in accordance with the Law on Accounting. If a legal entity deviates from a corporate governance code, whether statutory or voluntary, it must explain which parts of the code it departs from and the reasons for doing so. There are no legal provisions for entities to publicly disclose details of their corporate governance practices, especially when referring to voluntarily applied codes or practices. The annual management report and consolidated management report for JSCs, large legal entities, insurance companies, banks, financial institutions, clearing stock companies, stock exchanges, investment companies, investment

<sup>70</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32022L2464&from=EN>

<sup>71</sup> The EFRAG approved the first set of ESRS in November 2022. The European Commission adopted the ESRS in July 2023. The new standards are part of the CSRD, entering into force for reporting year 2024, with first submissions due in 2025. <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32023R2772>.

<sup>72</sup> This requirement is extended to all PIEs, not just limited to listed companies as compared to the EU Directive 2013/34/EU.

<sup>73</sup> The Law on Accounting, Article 15

funds, investment fund management companies, voluntary pension funds, voluntary investment fund management companies, and other collective investment schemes should provide an overview of the corporate governance rules they follow, regardless of their size or PIE status. The auditor shall review the parts of the statement on the application of the corporate governance code and provide an opinion.<sup>74</sup> This report discusses specific corporate governance requirements for listed entities, banks, and insurance entities in other relevant chapters.

**91. The management of a JSC can be organized as either a one-tier or a two-tier board system.**<sup>75</sup> In a JSC with a one tier system, the governance bodies include: (i) general shareholders meeting; (ii) board of directors; and (iii) executive director. The bodies of a JSC with two-tier management include: (i) general shareholders meeting; (ii) supervisory board; and (iii) management board. The provisions of the law pertaining to a JSC apply "*mutatis mutandis*" to the LLC.<sup>76</sup>

**92. The requirements for nominating members of the company's bodies are prescribed by the law.**<sup>77</sup> Only a natural person with legal capacity may be appointed a member of the company's bodies. The company's auditor or a person who was involved in conducting the audit of the company's financial statements cannot be appointed. The articles of association of the company may establish additional requirements for the company's bodies.

**93. Requirements are more stringent for appointments to financial sector companies that can be established either as a JSC or LLC and require prior approval by the CBCG.** The law<sup>78</sup> stipulates that only a person holding high education, with a good personal reputation, and experience in financial sector activities may be appointed as a member of the board of directors of a JSC or LLC financial service provider. Prior approval of the CBCG as regulator is required.

**94. The board of directors<sup>79</sup> and supervisory board<sup>80</sup> should consist of at least three members.** If a board opts to have more members, there must be an odd number of directors. The board of directors must have at least one third independent membership. A public JSC must have at least five board members, two fifths of which must be independent.<sup>81</sup> Persons employed by the company and members of the company's management board or the company's proxy cannot be elected to the supervisory board. Board members are elected by the Annual General Meeting (AGM).

**95. The responsibilities of the board of directors are outlined in law.**<sup>82</sup> These responsibilities include providing guidelines to the executive director(s) with regard to conducting operations of the company; appointing the executive director(s), establishing the business strategy, supervising the company's operations, establishing the company's accounting and risk management policies, appointing persons responsible for conducting internal audit, convening the AGM; establishing the amounts of dividends; implementing the decisions of the AGM; and proposing the remuneration policy. The board of directors is required to report at the ordinary AGM regarding the following matters:<sup>83</sup> (i) accounting and financial situation of the public JSC and its related companies, if any; (ii) the company's compliance with the law and regulations; (iii) the qualifications and independence of the company's auditor; (iv) contracts entered into between the company and its directors and their related parties; (v) the acquisition of the company's own shares; (vi) the company's operating results and overall financial position, including a description of the main risks the company faces and significant business events occurring after the expiry of the financial year, and (vi) expected future development of the company. The board of directors may establish committees for nomination, remuneration policy, and other committees to perform specific expert duties under the competence of the board of directors.

<sup>74</sup> The Law on Accounting, Article 13

<sup>75</sup> The Company Law, Article 128

<sup>76</sup> The Company Law, Article 266

<sup>77</sup> The Company Law, Article 157

<sup>78</sup> The Law on Financial Leasing, Factoring, Purchase of Receivables, Micro-lending and Credit-guarantee Operations, Article 107

<sup>79</sup> The Company Law, Article 155

<sup>80</sup> The Company Law, Article 176

<sup>81</sup> The Company Law, Article 156, Article 178

<sup>82</sup> The Company Law, Article 161

<sup>83</sup> The Company Law, Article 162

**96. For companies with a two-tier-board, the responsibilities of the supervisory board are defined in law.<sup>84</sup>** Their responsibilities regarding financial reporting and audit include: (i) providing guidelines for the work of the management board and establishing the company's accounting and risk management policies; (ii) adopting the management board's reports on the company's business operations, endorsing financial statements and submitting them to the general meeting for adoption; (iii) appointing the company's internal auditor; and (iv) reporting to the AGM in a similar manner as describe above for the board of directors.

**97. The management board should consist of at least three members appointed by the supervisory board.<sup>85</sup>** If a board opts to have more members, there must be an odd number. The management board must have at least one third independent membership. The members of the management board cannot be the same individuals who are sitting on the company's supervisory board. The responsibilities of the management board regarding financial reporting and audit include overseeing the keeping of the company's business books and preparing of the company's financial statements. Additionally, they are responsible for submitting quarterly reports on the company's current business operations to the supervisory board.

**98. The law requires holding a shareholders' AGM at least once a year within six months of each financial year-end.<sup>86,87</sup>** The first AGM must be held within 18 months following the date of the company's constituent general meeting. In addition to the board of directors, shareholders holding at least 5 percent of the capital have the right to convene a general meeting. During the AGM, the summary of the audit report shall be read, and it will be made available for inspection to all shareholders attending the general meeting. The auditor has the right to attend the AGM and provide explanations and answers to questions related to the qualifications and opinions stated in the audit report.<sup>88</sup>

**99. All legal entities for which audit is mandatory are required to establish an audit committee, rather than only PIEs.** Under international good practices and the EU acquis, only PIEs must establish an audit committee. This requirement puts an unnecessary burden on medium-sized enterprises that are non-PIEs. In addition, all audit firms need to submit a transparency report, this is usually only a requirement for PIE auditors. As there are about only 20 audit firms in Montenegro, this is an extra burden for the public oversight system that is not yet fully discharging its duties.

**100. The responsibilities of the audit committee are defined by the Law on Auditing.** An audit committee is a separate committee consisting of at least three members.<sup>89</sup> It is necessary for at least one member of the audit committee to have knowledge in the field of accounting, and they cannot be an employee, a shareholder, or a member of the governing body. However, there are no legal provisions stating that a majority of the audit committee members must be independent of the entity. It is not mandatory for any member to have competence relevant to the sector in which the entity operates. There is no legal requirement for the audit committee to report annually, either directly to the shareholders or to the entity's administrative or supervisory body (however, in practice it could be part of internal regulations of entities). Specifically, the current legislation does not oblige audit committee members to inform the administrative or supervisory body of the audited entity about the outcome of the statutory audit, explain how the statutory audit contributed to the integrity of financial reporting, or describe the role of the audit committee in that process.

**101. There are no specific legal provisions regarding the role of the audit committee in the process of appointing statutory auditors or audit firms for PIEs as mandated by the EU acquis.<sup>90</sup>** The general requirement that applies to all audits as per provisions of the Law on Accounting is that the audit committee is required to make recommendations to the general

<sup>84</sup> The Company Law, Article 181

<sup>85</sup> The Company Law, Article 185, Article 186

<sup>86</sup> The Company Law, Article 134

<sup>87</sup> The Company Law, Article 135

<sup>88</sup> The Company Law, Article 198

<sup>89</sup> The Law on Auditing, Article 30

<sup>90</sup> Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities



meeting of shareholders or founders regarding the selection of an audit firm or a statutory auditor. For example, there are no provisions that require the recommendation to be justified or to include at least two choices for the audit engagement. The audit committee is not legally required to declare that its recommendation is free from influence by a third party. Additionally, there is no obligation for the audit committee to confirm that any contract between the PIE and a third party does not impose restrictions on the choice of statutory auditors or audit firms by the general meeting of shareholders to certain categories or lists of statutory auditors or audit firms. In Montenegro, the performance of the PIE audit committee is not subject to assessment by the Audit Council (the audit oversight body in Montenegro).

**102. Auditors are appointed by the shareholders' general meeting for one year.** The Audit Committee is required to make recommendations to the general meeting regarding the selection of an audit firm or a statutory auditor. Audit firms and statutory auditors are obligated to rotate the statutory auditor on an audit or the principal audit partner for the audit, at most every seven years from the beginning of the audit of the financial statements. They can only audit the same entity after three years have passed since the date of signing the last audit report.<sup>91</sup> The auditor has the right to attend the general meeting and provide explanations and answers to questions related to the qualifications and opinion given. There are no explicit legal provisions requiring any contractual clause that restricts the choice by the general meeting of shareholders to certain categories or lists of statutory auditors or audit firms regarding the appointment of a particular statutory auditor or audit firm to carry out the statutory audit of that entity.

**103. The selection of auditor appears to be determined mainly by price.** The audit committee and shareholders entitled to nominate candidates for the company's auditor appear not to use a

comprehensive and fair selection procedure including, for example, the preparation of tender documentation for the invited statutory auditors or audit firms and the evaluation of the proposals. In Montenegro, the audit is performed by a statutory auditor or an audit firm that is recognized and registered in accordance with the provisions of the Law on Auditing. Legal entities<sup>92</sup> that fall under the scope of the Law on Public Procurement<sup>93</sup> and are subject to statutory audit, must procure audit services<sup>94</sup> in accordance with the legal provisions, specifically by choosing the most economically advantageous offer.<sup>95</sup> In practice, the selection is typically based on the lowest price. Selecting statutory auditors based solely on the lowest offered price may compromise the quality, independence, and comprehensiveness of the audit. It is crucial to consider additional factors such as expertise, experience, reputation, and track record of the audit firm, in addition to the price, when making the selection.

**104. The current legislation allows for the dismissal of statutory auditors or audit firms without requiring explicit evidence of proper grounds.** In Montenegro, the auditor can be dismissed before the end of their appointment term through a decision made by the general meeting and adopted by a majority vote.<sup>96</sup> The EU Audit Directive explicitly states that differences of opinion on accounting treatments or audit procedures should not be considered proper grounds for the dismissal of auditors. Neither the audited entity nor the statutory auditor or audit firm are obligated to inform the Audit Council, which is responsible for public oversight, nor to provide an adequate explanation for the reasons behind the dismissal.

**105. The audit firms and statutory auditors are not allowed to perform the statutory audit of an entity to which they have provided certain non-audit services during the financial year in which the non-audit services were rendered.**<sup>97</sup> The Law on Auditing states that audit firms and statutory auditors

<sup>91</sup> The Law on Auditing, Article 29

<sup>92</sup> Legal entities in which the state and/or local self-government unit owns more than 50% of shares, or which are financed with more than 50% from the state budget and/or the budget of the local self-government unit, or over which control is exercised by the public contracting authority, or which have more than half of the members of the management body or supervisory body appointed by the public contracting authority.

<sup>93</sup> The Law on Public Procurement of 30.12.2019, Official Gazette No. 074/19 (latest update in 2023)

<sup>94</sup> The Law on Public Procurement, Article 76

<sup>95</sup> The Law on Public Procurement, Article 117

<sup>96</sup> The Company Law, Article 200

<sup>97</sup> The Law on Auditing, Article 20

may also provide services in the field of finance and accountancy, financial analysis and control services, tax and other business consulting, as well as the valuation of companies, assets, and liabilities, and the development and economic evaluation of investment projects.<sup>98</sup> While the law mandates the audit committee to monitor the independence of the engaged statutory auditors or audit firms conducting the audit, including the appropriateness of providing non-audit services to the audited entity, it does not specify the circumstances under which the audit committee could permit or prohibit non-audit services to be provided by the same auditors. Financial sector regulators can impose additional restrictions regarding non-audit services.

#### *Filing and/or Publication of Financial Statements*

**106. There are multiple filing/publication requirements for financial information of companies, regulated or not, with different deadlines:** the tax administration is mandated to publish financial statements, management reports, and audit reports of all legal entities on its website. Similar requirements exist for the CBCG, the CMA, and the ISAM regarding the filing of financial statements for banks, listed entities, and insurance companies.

**107. The tax administration manages a portal for submission of financial statements that serves the following three primary functions:** (i) submission portal for information necessary for the completion of tax returns; (ii) database of statistical and economic information for Montenegro; and (iii) repository of annual financial statements, as well as associated audit reports and management reports.

**108. Legal entities are required to submit their financial statements to the tax administration annually by the following deadlines.**

- \* An annual filing for the preceding year including financial statements and a management report, in paper and electronic form, must be submitted by

all entities no later than March 31 of the current year.<sup>99</sup> In practice, all statements and reports are submitted exclusively in electronic format.

- \* An annual filing for the preceding year including consolidated financial statements and a consolidated management report, where applicable, must be submitted in paper and electronic form no later than May 31<sup>100</sup> of the current year.
- \* All legal entities subject to mandatory audit are required to submit an audit report for the preceding year, in paper and electronic form, no later than June 30<sup>101</sup> of the current year.

In addition, listed entities, insurance companies, banks, and other financial service providers are required to submit annual financial statements to their financial regulator (CBCG, ISAM, or CMA), with the content, terms and manner of the preparation and submission prescribed by the respective regulator.<sup>102</sup> All financial regulators publish the information submitted to them.

**109. Quarterly reporting is required of some entities. Listed entities, insurance companies, and banks are required to submit quarterly financial statements and quarterly consolidated financial statements, where applicable, in paper and electronic form to the CMA, ISAM, or CBCG, as appropriate.**<sup>103</sup> There are no additional requirements to file semi-annual or quarterly reports for non-regulated companies.

**110. Having different submission deadlines for the financial statements and the audit report could impact the quality of decisions made by potential investors and other users.** The submission dates noted above mostly fit tax and statistical purposes. Verification of the submitted reports is done by the tax administration with a focus on taxation related requirements. As a result, potentially incomplete and unaudited data may be made publicly available; multiple iterations of the same data may be released to the public as financial statements are re-submitted over time; and little or no explanation is provided for

<sup>98</sup> The provisions do not fully align with the list of prohibited non-audit services for PIEs as per EU Regulation 537/2014, Article 5.

<sup>99</sup> The Law on Accounting, Article 11

<sup>100</sup> The Law on Accounting, Article 17

<sup>101</sup> The Law on Auditing, Article 32

<sup>102</sup> Specific accounting, financial reporting, auditing, and corporate governance requirements for listed entities, banks, and insurance entities are discussed in separate chapters.

<sup>103</sup> The Law on Accounting, Article 18

changes in submitted data. The current arrangements contradict the provisions of the EU Accounting Directive, requiring that entities publish the approved annual financial statements and the management report together with the opinion submitted by the statutory auditors within a reasonable period of time.

**111. According to information provided by the tax administration, a total of 37,157 taxpayers submitted valid financial statements for 2022 of these 7,230 entities did not report any income and 1,664 were individual entrepreneurs.** There were 41,845 active taxpayers in 2022 (36,185 legal entities and 5,660 individual entrepreneurs); the overall submission rate was 89 percent. 27,828 are classified as micro-entities. The current system within the tax administration is not flexible enough to generate aggregate information on the number of entities classified by size as specified in the Law on Accounting; it only classifies entities by size based on reported income. As a result, the compliance with legal requirements regarding the submission of financial statements, including notes, management reports, and audit reports can only be verified during inspections. However, although PIEs are required to submit their audit reports to the tax administration no later than June 30<sup>th</sup>, only 62 entities (or 20.7 percent) out of 299 had submitted their audit reports for 2022 as of December 2023.

#### *Monitoring and Enforcement – Financial Reporting*

**112. Monitoring and enforcement of financial reporting by the MoF and the tax administration is not sufficiently effective.** The Law on Accounting mandates the MoF and the tax administration to oversee the implementation of the law and of the regulations adopted pursuant to the law.<sup>104</sup> The review of selected samples of financial statements of non-PIEs, particularly of SMEs, indicates a number of shortcomings in the area of filing financial statements.<sup>105</sup> Both MoF and tax administration inspectors are entitled, following inspection, to

(i) provide recommendations on removal of the deficiencies within a specified time limit; and/or (ii) take other measures and actions in accordance with the legislation in force.<sup>106</sup> Inspected entities have the right to appeal against the decision.

#### **113. The tax administration performs only limited checks on the financial statements received.**

Checks include ensuring that all forms of the financial statements have been submitted and that complete statements are filed on time before the information becomes publicly available. The system also automatically checks that the balance sheet reconciles arithmetically, meaning that the total assets equal the equity and liabilities. However, there are no logical checks in place, such as verifying if financial statements are subject to mandatory audits or if the audit report is signed by an authorized auditor. Even if the total assets are presented as a negative amount, as long as it reconciles with the equity and liabilities, the system will accept the financial statements. Once all required fields are filled in and documents are uploaded, the system automatically accepts the financial statements without any follow-up verification of the uploaded information and the information becomes publicly available. Inspections are only conducted at the entity level. Furthermore, since there is no specific space designated for the management report to be uploaded, in practice some entities upload it in the section for notes or the audit report. Considering that there are different submission dates for financial statements and the audit report, in case there are changes to the financial statements at the time of audit report submission, the entity will upload the revised financial statements without needing to provide a reason for the changes. The system does not allow an entity to upload revised statements<sup>107</sup> for the same reporting period, so it simply replaces the previous one. Subsequent checks of the contents of the financial statements focus on information necessary for tax compliance but not for compliance with the applicable financial and managerial/non-financial reporting requirements.

<sup>104</sup> The Law on Accounting, Article 34

<sup>105</sup> Details of the review are provided in *Section II. C: Observed Financial Reporting Practices and Perceptions* of this report.

<sup>106</sup> The Law on Accounting, Article 36

<sup>107</sup> Each statement (i.e., statement of financial position; profit and loss statement; cash flow statement; statement of changes in equity; notes to financial statements) is filed separately.



**114. Neither the MoF nor the tax administration perform any review of the applicable corporate reporting requirements.** The purpose of such a review is to ensure that annual reports and financial statements adhere to the applicable financial and managerial/non-financial reporting requirements and provide high-quality, decision-useful information for investors and other stakeholders. The review of selected sample financial statements and audit reports conducted as part of this assessment raises concerns about the overall quality of audited and published financial statements in Montenegro. For details see *Section II. C: Observed Financial Reporting Practices and Perceptions* of this report.

**115. There are sanctions for non-compliance with the provisions of the accounting law.**<sup>108</sup> Monetary penalties range from €500 to €16,500 for non-compliance by legal entities and from €50 to €2,000

for non-compliance by responsible persons in legal entities. Sanctions can be applied by either the MoF or the tax administration based on the findings of the inspection, and they are subject to appeal. While the regulation permits small and micro entities to submit a balance sheet, a profit and loss account, and simplified notes, the sanctioning conditions provide monetary penalties to both the legal entity and responsible individuals within the entity for failing to prepare financial statements in accordance with IFRS Accounting Standards.

### Performance Indicators – General Financial Reporting Requirements

**116. The attributed rating is 2.5, which equals the simple mean of the rating criteria comprising sub-indicators A.1-A.2 below (i.e.,  $2.5 = (1+4)/2$ ).**

**Table 5.** Sub-indicator A. General financial reporting requirements

A.1. Simplified financial reporting		
Montenegro Rating	1	Although entities and groups of entities are clearly differentiated based on size and at least three criteria, the financial reporting framework required by the Accounting Law is based on full IFRS. Simplified disclosure requirements as introduced through adopted regulation (i.e., the Rulebook for accounting) for certain categories of entities contradict the Law on Accounting and undermine the proper application of IFRS.
Rating Criteria	1	Criteria for '2' rating not met.
	2	Financial reporting simplifications exist in the legal framework, and these are based on an entity's legal form.
	3	Financial reporting simplifications differ for some categories of entities and groups, differentiated by size and differentiation is based on 1-2 criteria.
	4	Financial reporting simplifications are clearly differentiated by size of entities and groups and differentiation is based on at least 3 criteria.

<sup>108</sup> The Law on Accounting, Article 38

**Table 6.** Sub-indicator A. General financial reporting requirements

A.2. Exemptions to perform statutory audits		
Montenegro Rating	4	Entities and group of entities are clearly differentiated by size and differentiation is based on at least 3 criteria. Micro entities, small entities, and small groups of entities are exempted from the obligation to perform annual audit.
Rating Criteria	1	Criteria for '2' rating not met.
	2	Auditing exemptions exist in the legal framework, and these are based on an entity's legal form.
	3	Auditing exemptions differ for some categories of entities and groups, differentiated by size and differentiation is based on 1-2 criteria.
	4	Auditing exemptions are clearly differentiated by size of entities and groups and differentiation is based on at least 3 criteria.

## 2. Listed Companies

### Overview of the Securities and Exchange Market

**117. Montenegroberza<sup>109</sup> (MNSE) is the sole stock exchange in Montenegro.** The Montenegro Stock Exchange was established in 1993. In 2001, the New Securities Exchange of Montenegro was founded. At the beginning of 2011, the two Montenegrin stock exchanges were integrated, through the merger of the New Securities Exchange of Montenegro and the Montenegro Stock Exchange to form MNSE.<sup>110</sup> MNSE is not affiliated with any networks of other exchanges.

**118. There are two segments on the MNSE, the regulated market and the multilateral trading platform (MTP) market.<sup>111</sup>**

**119. The regulated market is in turn split into the prime market and the standard market (collectively the stock exchange market), and the free market.<sup>112</sup>**

To be listed on the stock exchange market, the prospective issuer must have operated as a legal entity for at least 3 years and have a carrying amount of capital of at least €5 million.<sup>113</sup> The requirements for admission to the prime market are the most demanding and include (1) a minimum free float of 20 percent of capital or €2 million in value, (2) a minimum of 1,000 shareholders, (3) two profitable years out of the last three, and (4) a minimum of three years of unqualified audit reports. The requirements for admission to the standard market include (1) a minimum free float of 10 percent of capital or €1 million in value, (2) a minimum of 500 shareholders, and (3) a minimum of three years of audit reports. To qualify for admission to the free market, an entity must provide the MNSE with its prior year financial statements and audit report, must have share capital of at least €0.2 million, and a free float of at least 5 percent or €0.1 million. If an entity fails in a subsequent year to meet the requirements of the market it is admitted to, it may be reclassified to another market it does qualify for.

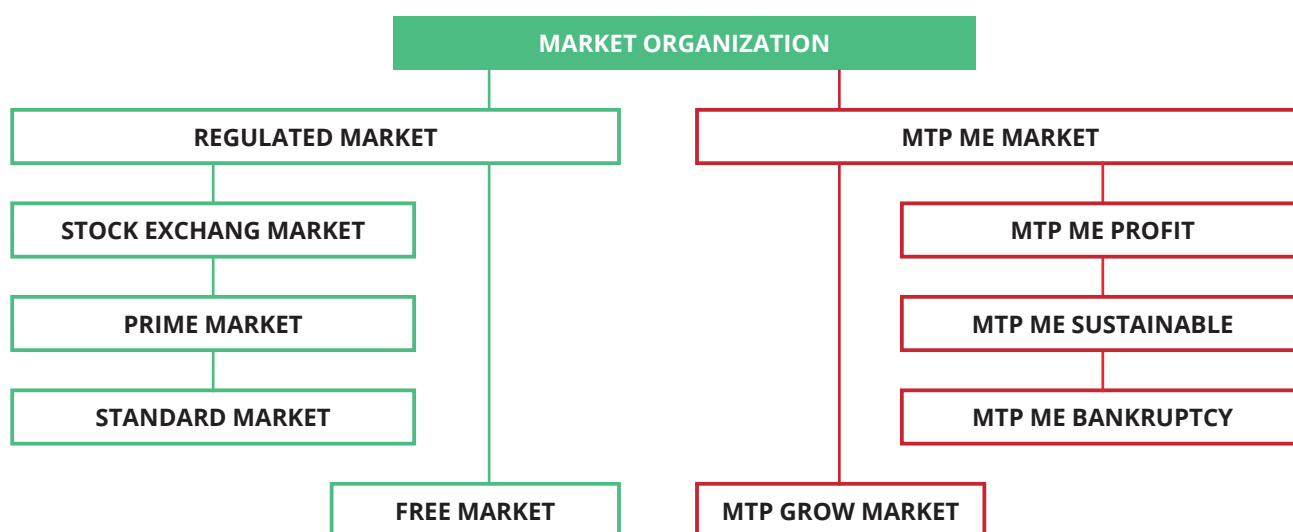
<sup>109</sup> <https://www.mnse.me/>

<sup>110</sup> <https://www.mnse.me/code/navigate.asp?Id=944>

<sup>111</sup> <https://www.mnse.me/code/navigate.asp?Id=1083>

<sup>112</sup> The criteria for the regulated markets are contained in the rules published by the MNSE. The rules need to be approved by the CMA. Until approved, the rules are not binding.

<sup>113</sup> <https://www.mnse.me/code/navigate.asp?Id=1084>

**Figure 2.** Structure of the MNSE market

Source: MNSE website

**120. The MTP market includes both (i) entities that fail to fulfill the conditions for inclusion in any of the regulated market segments and (ii) entities that qualify for the regulated market segments but have elected inclusion on the MTP instead.** It represents the development market of the stock exchange for newly established JSCs that do not fulfill two or more conditions for joining the free market.<sup>114</sup> The market includes companies without a free float of shares. There are very limited additional requirements for entities admitted to the MTP market aside from those generally required for legal entities operating in Montenegro.

**121. The market is active, but with very limited turnover.** 255 domestic entities are listed on the exchange with a total market capitalization of €3.5 billion.<sup>115</sup> Of those, 15 entities (with a market cap of €1.3 billion) are state controlled entities. There is only one listed subsidiary of an international registered company (market capitalization of €0.5 million). Eighteen entities are listed on the stock exchange market (seven on the prime market and eleven on the standard market). 57 entities are listed on the free

market (including nine investment funds). There have been no initial public offerings or additional public offerings in the last three years. Trading volume is subdued – for the 12 months to December 31, 2022, total volume traded was €49.1 million (average of eleven daily transactions)<sup>116</sup> and for the nine months to September 2023, trading volume was €8.3 million (average of 7.9 daily transactions).<sup>117</sup>

**122. The MNSE bond market is significantly smaller than the equity market.** The market comprises seven corporate bonds with a market capitalization of €1,099 million and 4 government bonds with a market capitalization of €169 million. Bonds included on the market are subject to similar requirements to shares listed on the regulated market. Hereafter, references to listed entities will refer only to entities listed on the regulated market.

**123. The principal institutional investors in the MNSE are investment funds organized as closed-end funds, open-end investment funds, authorized credit institutions (credit institution licensed to provide investment services), and investment firms.** There is a very limited number of non-institutional investors.

<sup>114</sup> <https://www.mnse.me/code/navigate.asp?ld=1083>

<sup>115</sup> Source MNSE Website, 29 September 2023 [https://www.mnse.me/code/navigate.asp?ld=85&report\\_in\\_dd=30&report\\_in\\_mm=09&report\\_in\\_yy=2023&report\\_in\\_dd\\_to=10&report\\_in\\_mm\\_to=10&report\\_in\\_yy\\_to=2023&report\\_type=1](https://www.mnse.me/code/navigate.asp?ld=85&report_in_dd=30&report_in_mm=09&report_in_yy=2023&report_in_dd_to=10&report_in_mm_to=10&report_in_yy_to=2023&report_type=1)

<sup>116</sup> MNSE Annual statistical Bulletin 2022, [https://www.mnse.me/upload/documents/Bilteni\\_2022/Annual%202022.pdf](https://www.mnse.me/upload/documents/Bilteni_2022/Annual%202022.pdf)

<sup>117</sup> MNSE Quarterly Bulletin, September 2023, <https://www.mnse.me/upload/documents/IZVJESTAJI/Quarterly%20bulletin%20Q3%202023.pdf>

**Table 7.** Turnover by individual market

€ millions		Turnover		
Nine months to:	Stock exchange market	Free Market	MTP Market	Total
30 September 2023	2.51	5.68	0.11	8.31
30 September 2022	1.33	48.39	0.26	49.98

Source: MNSE Quarterly bulletin

## Securities Market Regulation

**124. The securities market in Montenegro is regulated by the Law on Capital Markets.**<sup>118</sup> The CMA is the capital market regulator in Montenegro. The functions and duties of the CMA are determined by the Law on Capital Markets to operate and maintain an effective, functioning capital market and the activities associated with that.<sup>119</sup> In fulfilling this function, the CMA has the power to require issuers to disclose material information, to require the suspension of securities from trading, and to enforce capital market laws.<sup>120</sup> The CMA is a self-financing organization, predominantly from fees from capital market participants.<sup>121</sup>

**125. The CMA prepares an annual report on its activities.**<sup>122</sup> The report is required by law and details the work performed by the CMA, the situation in the capital market, and the financial report of the CMA for adoption by parliament. The report is publicly available on the CMA website.<sup>123</sup>

## Financial Reporting Requirements for Listed Companies

**126. PIEs, which include all listed entities, are required by law to submit annual financial statements, including management reports and audit reports, to the tax administration.**

**127. The audited annual financial statement must be prepared in accordance with IFRS Accounting Standards as endorsed by the ICAM.** This is not IFRS and an entity applying IFRS(M) would not be permitted to claim compliance with IFRS (refer to paragraph 79 above). Where IFRS(M) requires that the reporting entity prepare consolidated accounts, the IFRS(M) compliant annual financial statement should be included along with the annual financial statement of the parent entity. Financial statements follow a standardized format (refer to paragraph 80 above). There are no identified inconsistencies between these requirements and IFRS(M).

**128. Listed companies are required to publish their audited annual financial statements on or before March 31 in the year immediately following the financial year end.**<sup>124</sup> The audited consolidated annual financial statement must be published on the website of the reporting entity as part of the annual report and must be submitted to the CMA and the MNSE at the same time. The annual report is also published on the CMA and MNSE websites. The annual report must remain publicly available for ten years following the date of publication. The annual report must include (1) audited annual financial statement, (2) the audit report, (2) the management report, and (3) declarations by the responsible executives.

**129. Listed companies are required to submit management reports.**<sup>125</sup> The annual management report must be reviewed by an auditor in accordance

<sup>118</sup> The Law on Capital Markets (2018)

<sup>119</sup> The Law on Capital Markets, Article 26

<sup>120</sup> The Law on Capital Markets, Article 92

<sup>121</sup> The Law on Capital Markets, Article 47

<sup>122</sup> The Law on Capital Markets, Article 48

<sup>123</sup> Annual Report on the Work of the Capital Market Authority and the State of the Capital Market for 2022 <https://www.scmn.me/me/o-komisiji/izvjestaji-o-radu>

<sup>124</sup> The Law on Capital Markets, Article 98

<sup>125</sup> The Law on Accounting, Article 12

with rules determined for PIEs. The management report must include a brief description of the business activities and organizational structure of the legal entity, an analysis of the financial position and business results, a description of the principal risks and uncertainties it faces and a corporate governance report, along with the other information described in paragraph 87 above.

**130. Half yearly financial reports (interim reports) are also required to be prepared by the listed company in accordance with IFRS(M).**<sup>126</sup> Interim reports must be published on the reporting entity's website and submitted to the MNSE and the CMA no later than August 31 of each year. Where IFRS(M) requires that the reporting entity prepare consolidated accounts, the IFRS(M) compliant consolidated annual financial statement should be included along with the annual financial statement of the parent entity. An audit review is not required. An interim management report must accompany the interim report and should cover at least the first six months of the financial year. It must contain description and analysis of important events of the first six months, including their impact on the interim report and a comprehensive overview of the issuer's main key risks and challenges for the remaining six months of the financial year.

**131. Quarterly financial reports are required to be prepared by the listed company in accordance with IFRS(M).**<sup>127</sup> These, and the IFRS(M) consolidated annual financial statement, must be published on the company's website and submitted to the CMA and MNSE no later than one month after each quarter end. An audit review is not required. The quarterly management report should cover important events that have occurred in the reporting period. It should also include the principal risks and challenges until the end of the financial year.

**132. The CMA has published regulations containing rules on detailed content and method of financial reporting.** These rules regulate the content and method of preparing and submitting issuers' financial reports. There are no identified inconsistencies between these requirements and IFRS(M).

**133. The MNSE listing requirements establish additional reporting obligations.**<sup>128</sup> Additional requirements include details of the dividend policy, share transactions of senior management, price sensitive information, notification of acquisition or disposal of own shares, and invitations to the Shareholders' AGM. They differ to some extent between the free market, the standard market, and the prime market.

## Statutory Audit and Other Forms of Independent Assurance

**134. The annual financial statement of issuers of public securities is required to be audited.**<sup>129</sup> The auditing standards used in the audits of listed companies are set by the MoF. ISA(M) is required to be followed for the audits of listed companies.<sup>130</sup>

**135. Audit firms of listed entities in Montenegro are rotated.**<sup>131</sup> Audit partners are required to be rotated every seven years. Audit firms are also required to be rotated every seven years. The law also establishes a mandatory cooling off period of three years.

**136. There are explicit restrictions on the services audit firms are allowed to provide to their audit client.** An audit company or an authorized auditor may not audit a legal entity where it has performed accountancy or advisory services in the audit year.<sup>132</sup> An auditor is subject to the code of ethics of professional accountants.<sup>133</sup> General independence

<sup>126</sup> The Law on Capital Markets, Article 99

<sup>127</sup> The Law on Capital Markets, Article 100

<sup>128</sup> <https://www.mnse.me/code/navigate.asp?id=1084>

<sup>129</sup> The Law on Capital Markets, Article 98

<sup>130</sup> The Law on Auditing, Article 3

<sup>131</sup> The Law on Auditing, Article 29

<sup>132</sup> The Law on Auditing, Article 9(2)

<sup>133</sup> The Law on Auditing, Article 26(7)

rules also apply, and the auditor must be independent from the entity to which it provides audit services.<sup>134,135</sup> Auditors of listed companies do not face any further restrictions on providing non-audit services to listed companies they audit. The MoF maintains a list of approved auditors, but there is no further restriction on which auditors can audit listed companies.

**137. There are limited specific requirements for listed entities governing the appointment and termination of auditors.** The AGM makes the decision on the appointment or withdrawal from an agreement concluded with an auditor, based on the recommendation of the audit committee. There are no special provisions indicating the rights of boards of directors regarding the appointment/termination of auditors. Legislation does not require the auditor of listed companies to attend the AGM. The resignation/termination of the auditor does not need to be reported to the CMA.

## Audit Committees

**138. Listed entities must appoint an audit committee comprising at least three members.**<sup>136</sup> The responsibilities of the audit committee are prescribed by the Law on Auditing as discussed more fully in paragraph 100 above).<sup>137</sup>

## Filing/ Publication of Financial Statements

**139. Listed companies are required to publish an annual financial statement and a management report.** It must be fully audited, IFRS(M) compliant, and published within 3 months of year end.<sup>138</sup> The annual financial statement must continue to be available for ten years.

**140. Listed companies are required to disclose specified material information relating to financial**

**reporting on an ongoing and non-selective basis.**<sup>139</sup> The MNSE listing requirements detail specific requirements for the disclosure of additional information by listed companies.

**141. Financial statements can be accessed online.** The annual report is published on the Central Register of Regulated Information kept by the CMA, the CMA website,<sup>140</sup> the MNSE website, and the reporting entity's website.

## Monitoring and Enforcement – Financial Reporting

**142. The CMA does not review financial statements of listed companies for compliance with IFRS Accounting Standards.** There are no other institutions responsible for reviewing compliance with financial reporting requirements. However, the MNSE does a high-level review of the annual reports of listed entities, with a primary focus on completeness. The MNSE can require listed entities to account for the financial statements, and if incomplete or inconsistent, can impose sanctions. Listed entities that are also subject to other regulation (for example banks and insurers) are subject to the review processes implemented by those regulators. The CMA impose financial penalties ranging from €5 thousand to €40 thousand for non-compliance with reporting requirements.<sup>141</sup> The MNSE can demote, suspend, or exclude a listed entity if it does not comply with the listing rules. An entity can also be required to restate financial statements or publish supplementary information.<sup>142</sup>

**143. The CMA does not play any role in the oversight of auditors of listed companies.** The CMA takes no supervisory measures if a listed company receives anything other than an unqualified audit opinion. The MNSE will consider the appropriateness of an entity's admission to the prime market if it receives something

<sup>134</sup> The Law on Auditing, Article 44(2)

<sup>135</sup> The Law on Auditing, Article 8

<sup>136</sup> The Law on Auditing, Article 30

<sup>137</sup> The Law on Auditing, Article 31

<sup>138</sup> Amendments to the Law on Capital Market are currently being drafted. These amendments are planned to extend the reporting deadline to 4 months.

<sup>139</sup> <https://www.mnse.me/code/navigate.asp?Id=1084>

<sup>140</sup> <https://scmn.me/en/ucsnici-na-trzistu/emitenti>

<sup>141</sup> The Law on Capital Markets, Article 407(18) to 407(23)

<sup>142</sup> MNSE Listing rules



other than an unqualified audit opinion. There are also no protocols in place for the CMA or the MNSE to engage with the auditors of listed companies.

**144. The CMA and MNSE rely on the external audit function for the review of compliance with IFRS(M), with management report requirements, and with corporate governance requirements.**

**145. The financial statements of selected listed companies were reviewed as part of the observed financial reporting practices and perceptions.** The review concludes that non-bank listed institutions reviewed likely did not comply with at least some significant aspects of IFRS(M) accounting standards. No measures have been taken, and no fines imposed in the listed market for non-compliance with financial reporting requirements. For details see *Section II. C: Observed Financial Reporting Practices and Perceptions* of this report.

## Corporate Governance

**146. The MNSE has a mandatory code of corporate governance.**<sup>143</sup> The code was developed with the assistance of the International Finance Corporation (IFC) and was adopted in 2009.<sup>144</sup> The code is mandatory for the prime market and the standard market within the regulated market, but not for entities admitted to the free market.<sup>145</sup> On an executory level, the code includes (i) the companies relationship with, and transparency to, its shareholders, (ii) considerations for the formation of the board of directors, skills necessary, and transparency of board remuneration, (iii) policies for selection, evaluation, and remuneration of the chief executive officer of the company, (iv) the role of the board, (v) considerations for the appointment of the external auditor, and (vi) dealing with conflict

of interest. At a reporting level, the code deals with general considerations of periodic reporting. Although mandatory, the code is generally formulated on a “recommendation” or “comply or explain” basis and requires or encourages limited additional governance or financial reporting practices for listed companies over and above current legislative requirements.<sup>146</sup> However, companies that do not comply with the code will not be permitted to stay on the regulated market.

**147. The code of corporate governance triggers legal requirements to disclose information about the corporate governance code.**<sup>147</sup> The accounting law requires an entity to publish a corporate governance report that details (i) any code of governance it is subject to, (ii) any code, if applicable, that it has voluntarily chosen to apply; and (iii) any corporate governance practices applied, the application of which is not mandatory in accordance with the accounting law. The code of corporate governance applied by listed entities falls under (i) above. The law also requires that an entity reports any departures from the corporate governance code it is applying, and its reasons for doing so. Since 2022, the MNSE has further required that entities listed on the regulated market submit an annual corporate governance questionnaire. This questionnaire is reviewed by the MNSE and published on its website.

**148. The general requirements as set out above (paragraphs 93 to 108 are applicable to listed companies.** The Accounting Law requires PIEs, including listed entities, to also disclose specified corporate governance information.<sup>148</sup> Companies are legally obliged to have a board of directors.<sup>149</sup> A public JSC must have at least five members. The responsibilities of the board of directors are set out in law.<sup>150</sup> The Law requires holding a shareholders’ AGM at least once a year<sup>151</sup> within six months of each financial year end.<sup>152</sup>

<sup>143</sup> Also applicable to listed SOEs.

<sup>144</sup> The CMA has received funding to revise and update the Conde of Corporate Governance. The new code when developed will be mandated for participants in the regulatory market.

<sup>145</sup> <https://www.mnse.me/code/navigate.asp?id=1084>

<sup>146</sup> Corporate Governance Code in Montenegro, May 2009

<sup>147</sup> The Law on Accounting, Article 15(1) and (2)

<sup>148</sup> The Law on Accounting, Article 15(3) to (6)

<sup>149</sup> The Company Law, Article 155

<sup>150</sup> The Company Law, Article 161

<sup>151</sup> The Company Law, Article 134

<sup>152</sup> The Company Law, Article 135

## Performance Indicators – Financial reporting and Auditing of Listed Companies

149. The overall rating attributed to Montenegro under the performance indicator “Financial Reporting and Auditing of Listed Companies” is 2.3 out of 4, which equals the simple mean of the rating criteria comprising sub-indicators A and B below ( $2.3 = (3+1.5)/2$ ).

*Sub-indicator A. Financial reporting and auditing requirements for listed companies*

150. The attributed rating is 3.0, which equals the simple mean of the rating criteria comprising sub-indicators A.1-A.3 below (i.e.,  $3 = (2+3+4)/3$ ).

**Table 8.** Sub-indicator A: Financial reporting and auditing requirements for listed companies

A.1. Financial reporting requirements for listed companies		
Montenegro Rating	2	<p>Listed companies on the regulated exchange are required to prepare consolidated and legal entity annual financial statements, a management report, and a statement on corporate governance. These companies are also required to prepare quarterly and interim consolidated financial reports. These consolidated financial statements are prepared in accordance with Montenegrin financial reporting standards (IFRS(M)).</p> <p>However, IFRS(M) are not fully converged with current IFRS. They are based on IFRS as published in 2020, excluding IFRS 9, IFRS 15 and IFRS 17. The Code of Corporate Governance is outdated and although mandatory, includes significant relief in the form of “comply or explain” elements.</p>
Rating Criteria	1	Criteria for “2” rating not met.
	2	Listed companies are required to prepare legal entity financial statements on an annual basis, in accordance with prescribed financial reporting standards.
	3	<p>In addition to requirements under “2”: Listed companies are required to prepare a management report (or management discussion and analysis – MD&amp;A).</p> <p>Listed companies are required to apply IFRS for consolidated annual financial statement.</p>
	4	In addition to requirements under “3”: Listed companies are required to prepare interim consolidated financial statements and to publish a statement on corporate governance.
A.2. Audit requirements for listed companies		
Montenegro Rating	3	<p>The legal entity and consolidated financial statements of listed companies are subject to external audit, the AGM appoints the auditors on recommendation of the board of directors, and the auditor attests to the consistency and accuracy of the management report and the corporate governance report.</p> <p>Listed companies are required to have an audit committee with at least one independent member and one member with relevant financial or auditing experience.</p> <p>However, interim financial statements are not reviewed by auditors and the audit committee is not required to have more than one independent member.</p>
Rating Criteria	1	Criteria for “2” rating not met.
	2	The legal entity and consolidated financial statements of listed companies are subject to annual statutory audits. Shareholders (at the AGM) or board of directors (i.e., a governance body independent of management) are legally responsible for the appointment and dismissal of auditors of listed companies.

A.2. Audit requirements for listed companies		
Rating Criteria	3	<p>In addition to requirements under “2”:</p> <p>The auditor’s report is required to attest whether the management report (MD&amp;A) and other financial information have been read for consistency with financial statements.</p> <p>Listed companies are required to form an audit committee.</p> <p>At least one member of the audit committee is required to be an independent director. At least one member is required to have recent and relevant financial or auditing experience.</p>
	4	<p>In addition to requirements under “3”:</p> <p>Interim consolidated financial statements of listed companies are required to be reviewed by auditors.</p> <p>The audit committee comprises only independent directors. At least one member is required to have recent and relevant financial reporting or auditing experience.</p> <p>Auditors of listed companies are required to be appointed by shareholders at the AGM (if applicable) or by the board of directors on the recommendation of the audit committee.</p>
A.3. Timeliness and public disclosure of financial reports for listed companies		
Montenegro Rating	4	<p>Listed companies are required to publish the full sets of audited legal entity and consolidated annual financial statement along with the audit report, management report and statement of corporate governance and keep them publicly available for ten years.</p> <p>Listed companies are also required to publish interim and quarterly financial statements, with accompanying management discussion and analysis.</p> <p>The financial statements are made available on multiple connected and independent websites.</p> <p>The deadline for publication of audited annual reports is three months after reporting date.</p>
Rating Criteria	1	Criteria for “2” rating not met.
	2	<p>Listed companies are required to make legal entity and consolidated financial statements publicly available, although this may be in an abridged or incomplete form.</p> <p>Legal requirements are such that access to financial statements is limited or costly.</p> <p>The deadline for publication of annual reports of listed companies is no later than 9 months after reporting date.</p>
	3	<p>In addition to requirements under “2”:</p> <p>The audit opinion is also made publicly available.</p> <p>Legal requirements are such that financial statements are disseminated broadly, but there are limitations such as cost and ease of searchability.</p> <p>The deadline for publication of annual reports of listed companies is no later than 6 months after reporting date.</p>
	4	<p>Listed companies are required to make the full sets of legal entity and consolidated financial statements publicly available. The audit report is also made publicly available.</p> <p>Listed companies are also required to publicly disclose the interim financial statements, with accompanying management discussion and analysis.</p> <p>Legal requirements are such that financial statements are readily searchable and accessible, at low or no cost.</p> <p>The deadline for publication of annual reports of listed companies is no later than 4 months after reporting date.</p>

*Sub-indicator B. Monitoring and enforcement of the financial reporting requirements of listed companies*

151. The attributed rating is 1.5, which equals the simple mean of the rating criteria comprising sub-indicators B.1-B.4 below (i.e.,  $1.5 = (1+1+1+3)/4$ ).

**Table 9.** Sub-indicator B: Monitoring and enforcement of the financial reporting requirements of listed companies

B.1. Review of the listed company's annual financial statements		
Montenegro Rating	1	There is no process for the review of financial statements by the regulator. The stock exchange conducts only a high-level review.
Rating Criteria	1	Criteria for "2" rating not met.
	2	Review of the annual financial statement by the securities market regulator has <b>significant limitations</b> .
	3	Review of the annual financial statement by the securities market regulator has <b>minor limitations</b> .
	4	Review of the annual financial statement by the securities market regulator is <b>fully adequate</b> .
B.2. Communication with external auditors of listed companies		
Montenegro Rating	1	There is no formalized communication between either of the MNSE and the CMA, and the external auditors of listed companies.
Rating Criteria	1	Criteria for "2" rating not met.
	2	Communication between the securities market regulator and external auditors of listed companies has <b>significant limitations</b> .
	3	Communication between the securities market regulator and external auditors of listed companies has <b>minor limitations</b> .
	4	Communication between the securities market regulator and external auditors of listed companies is <b>fully adequate</b> .

### B.3. Reporting on the review of financial reporting of listed companies

Montenegro Rating	1	The review of the MNSE occurs at high-level. There may be some interaction between the listing committee and the reporting entity, however no information relating to these interactions is made public.
Rating Criteria	1	Criteria for "2" rating not met.
	2	Reporting by the securities market regulator on review of the financial statements of listed companies has <b>significant limitations</b> .
	3	Reporting by the securities market regulator on review of the financial statements of listed companies has <b>minor limitations</b> .
	4	Reporting by the securities market regulator on review of the financial statements of listed companies is <b>fully adequate</b> .

### B.4. Supervisory measures and sanctions for listed companies

Montenegro Rating	3	The regulators have a number of available supervisory measures and sanctions for listed companies and their key officers, including fines for responsible individuals or the entity. These also include requirements to restate financial statements, and/or the ability to recategorize an entity to a lower tier of the exchange or retract admission to the exchange.
Rating Criteria	1	Criteria for "2" rating not met.
	2	Supervisory measures and sanctions that can be imposed by the securities market regulator have <b>significant limitations</b> .
	3	Supervisory measures and sanctions that can be imposed by the securities market regulator have <b>minor limitations</b> .
	4	Supervisory measures and sanctions that can be imposed by the securities market regulator are <b>fully adequate</b> .

### 3. Banking Sector

#### Overview of the Banking Sector<sup>153</sup>

152. Montenegro's banking system is growing both in scope and scale.<sup>154</sup> Total assets were €6.74 billion<sup>155</sup> at 31 December 2023, a year-on-year increase of 5.2 percent.<sup>156</sup> The Banking system comprises 93.2 percent of the total assets in the financial sector.<sup>157</sup>

The insurance sector comprises a further 4.3 percent of total assets (see section B4 of this report). Total loans of the banking sector accounted for 60.8 percent of total assets of banks, deposit accounts with central banks accounted for 18.5 percent, and securities for 19.5 percent. Total loans were €4.10 billion at end December 2023, a year-on-year increase of 11.9 percent. Loans disbursed to the non-financial sector and retail sector accounted for 74.2 percent in bank loan receivables (2022: 75.6 percent).

**Table 10.** Lending by sector

Sector	December 2023		December 2022	
	Billion €	% share	Billion €	% share
Financial sector	43.3	1.1	22.2	0.6
State owned companies	34.9	0.9	49.7	1.4
Non-financial private companies	1,275.8	31.1	1,211.8	33.1
Central government	284.2	6.9	223.5	6.1
Local government	27.6	0.7	32.9	0.9
Households	1,689.9	41.2	1,555.0	42.5
NGOs	7.0	0.2	12.4	0.3
Non residents	732.5	17.9	552.6	15.1
<b>Total</b>	<b>4,095.2</b>	<b>100.0</b>	<b>3,660.1</b>	<b>100.0</b>

Source: Central Bank of Montenegro<sup>158</sup>

<sup>153</sup> For the purposes of this report, the banking sector section incorporates only the commercial banks.

<sup>154</sup> Bulletin of Central Bank of Montenegro, December 2023, page 15

<sup>155</sup> CBCG Monetary Financial Institutions, December 2023  
(<https://www.cbcg.me/en/statistics/statistical-data/monetary-and-financial-statistics>)

<sup>156</sup> Bulletin of Central Bank of Montenegro, December 2023, page 15

<sup>157</sup> Overview of Institutions in the Montenegrin Financial Sector as of 31 December 2023

Type of institution	Assets (million €)	No. of institutions	Share of assets (%)	Regulator
Banks	6,734	11	93.2	CBCG
Insurance companies	307	9	4.3	ISAM*
MFIs	90	7	1.2	CBCG
Leasing companies	41	1	0.6	CBCG
Investment funds	36	7	0.5	CBCG
Other	16	5	0.2	CBCG
<b>Total</b>	<b>7,224</b>	<b>40</b>	<b>100.0</b>	

Source: CBCG Website, <https://www.cbcg.me/en/core-functions/financial-stability/financial-system-of-montenegro>

\* See section B4 of this report

<sup>158</sup> CBCG Monetary Financial Institutions, December 2023  
(<https://www.cbcg.me/en/statistics/statistical-data/monetary-and-financial-statistics>)



**Table 11.** Breakdown of deposits by sector

Sector	December 2023 % share	December 2022 % share
Financial sector	0.8	1.5
Non-financial sector	32.5	33.6
General government	7.3	5.9
Households	34.4	32.4
Non-government and other non-profit organizations	1.5	1.4
Non-residents	23.5	25.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Source: Central Bank of Montenegro<sup>159</sup>

**153. Bank deposits are growing slower than the growth of assets.**<sup>160</sup> Total deposits in the banking sector increased to €5.47 billion by December 2023, an increase of 4.8 percent. Demand deposits accounts for the main share of 82.7 percent while term deposits accounted for the 15.0 percent of total deposits. At the end of December 2023, deposits from the non-financial business sector accounted for 32.7 percent of total deposits, retail deposits accounted for 34.7 percent, and non-resident deposits for 23.6 percent.

**154. The banking sector remains small in overall terms.** Total credit advanced relative to GDP was 61.8 percent as of December 2023.<sup>161</sup> In 2022, Montenegro's banking system consisted of 11 commercial banks, eight of which were foreign controlled. All Montenegrin banks were listed on the MNSE.

**155. The quality of the sector is sound.** Applying regulatory standards, impairment held against loans was 2.6 percent of total gross loans in December 2023 (2022: 2.6 percent).<sup>162</sup> Non-performing loans as a percentage of gross loans decreased from 6.3 percent<sup>163</sup> to 5.8 percent in the 12 months to December 2023.<sup>164</sup>

**156. The banking sector's average capital adequacy ratio at the end of 2023 was 19.7 percent (2022: 19.3 percent).**<sup>165,166</sup> This compares to the statutory minimum requirement of 8 percent (2021: 8 percent). In 2020/2021, the CBCG performed an asset quality review of the entire sector.<sup>167</sup> The main objectives of this review included assessing the impact of IFRS Accounting Standards and particularly the impact of the implementation of IFRS 9 on the sector. The effect of the asset quality review on capital for the entire

<sup>159</sup> CBCG Monetary Financial Institutions, December 2023 (<https://www.cbcg.me/en/statistics/statistical-data/monetary-and-financial-statistics>)

<sup>160</sup> Bulletin of Central Bank of Montenegro, December 2023, page 17

<sup>161</sup> Based on a projected GDP for 2023 of €6.624 billion (Bulletin of Central Bank of Montenegro, December 2023, page 29)

<sup>162</sup> CBCG *Financial Soundness Indicators*, December 2023 (<https://www.cbcg.me/en/statistics/statistical-data/financial-soundness-indicators>)

<sup>163</sup> Internal definition, as per methodology deployed in the CBCG, regulatory capital to risk-weighted assets.

<sup>164</sup> CBCG *Financial Soundness Indicators*, December 2023 (<https://www.cbcg.me/en/statistics/statistical-data/financial-soundness-indicators>)

<sup>165</sup> CBCG *Financial Soundness Indicators*, December 2023 (<https://www.cbcg.me/en/statistics/statistical-data/financial-soundness-indicators>)

<sup>166</sup> Calculated as the ratio of regulatory capital to the total amount of the risk exposure (CBCG Annual report 2022, page 20)

<sup>167</sup> Central Bank of Montenegro Annual Report 2021, Asset quality review, page 41

banking sector amounted to a reduction of €40.3 million, which resulted in the decline of the average solvency ratio by 1.6 percent (from 17.8 percent to 16.2 percent), and a resultant capital adequacy on October 31, 2021, of 18.1 percent.

## Banking Regulator

**157. The CBCG is established by statute<sup>168</sup> to contribute to achieving and maintaining price stability.** The CBCG is independent,<sup>169</sup> and its main objective is to foster and maintain financial system stability, including maintaining a sound banking system and safe and efficient payment systems.

**158. The CBCG is the sole regulator of the banking sector in Montenegro.** The CBCG regulates the operations of credit institutions, issues licenses and approvals, and supervises credit institutions in accordance with the law. The CBCG exercises its regulatory powers based on the provisions of the Law on CBCG,<sup>170</sup> the Law on Credit Institutions,<sup>171</sup> and a set of regulations adopted to implement those laws. The CBCG, within the supervisory reporting requirements established in the above laws, prescribes the types of reports, the form and the content of reports, and data and timeframes for their submission to the CBCG. In accordance with the Law on Accounting, the CBCG prescribes the content, terms, and method of preparing and submitting financial reports by banks.<sup>172</sup> The CBCG is a self-financing organization, funded predominantly through fees from banking sector participants and trading and lending activities.<sup>173</sup>

**159. The CBCG prepares an annual report on its activities.<sup>174</sup>** The report is required by law and details the work performed by the CBCG. The annual report is submitted to the Parliament of Montenegro for its consideration and is made publicly available on the CBCG website.<sup>175</sup>

**160. IFRS reporting is not discussed in the CBCG report, nor does it address IFRS shortcomings or noncompliance.** The 2022 CBCG annual report notes that it assessed the impairment of financial assets in accordance with the requirements of the IFRS 9 Expected Credit Loss model, but the report does not provide further information on IFRS compliance.<sup>176</sup> Law prohibits the CBCG from publicly disclosing information arising from examination reports of individual banks.

## Financial Reporting Requirements for Commercial Banks

**161. Banks are required to submit fully IFRS Accounting Standards compliant annual financial statements, including management reports and audit reports.** The IFRS compliance requirements are established by the Law on Credit Institutions.<sup>177</sup> The Law on Accounting is caveated to include only IFRS(M) that represents IFRS as endorsed by ICAM.<sup>178</sup> As this caveat is not included in the Law on Credit Institutions, banks applying that Law are therefore required to apply IFRS Accounting Standards as published by the IASB. Based on the existing framework prescribed by the CBCG, the financial statements are to be compiled

<sup>168</sup> The Law on Central Bank of Montenegro, 2010 (last updated in 2017), Article 4

<sup>169</sup> The Law on Central Bank of Montenegro, Article 7

<sup>170</sup> The Law on Central Bank of Montenegro, Article 28

<sup>171</sup> The Law on Credit Institutions, 2019 (last updated 2021)

<sup>172</sup> The Law on Credit Institutions, Article 229

(1) The external auditor shall, after the completed audit referred to in Article 222 paragraph 3 item 1 of this Law, draw up a report and issue opinion on compliance of annual financial statements of the credit institution with this Law, the International Accounting Standards or International Financial Reporting Standards, the law governing the audit and other regulations, and whether the annual financial statements present accurately and impartially the financial position of the credit institution, its operating results and cash flows for such business year in all materially significant matters.

(2) The Central Bank may request from the external auditor additional information related to the performed audit.

<sup>173</sup> The Law on Central Bank of Montenegro, Article 66

<sup>174</sup> The Law on Central Bank of Montenegro, Article 39

<sup>175</sup> Annual Report of the CBCG 2021

<https://www.cbcg.me/en/publications/regular-publications/central-bank-of-montenegro-annual-report>

<sup>176</sup> Central Bank of Montenegro Annual Report 2022, page 113, footnote 72

<sup>177</sup> The Law on Credit Institutions, Article 220

<sup>178</sup> The Law on Accounting, Article 5

and submitted to the CBCG in electronic form using the template prescribed.<sup>179</sup> There are no known inconsistencies between these templates and IFRS Accounting Standards.

**162. Prudential requirements supplement IFRS reporting.** In addition to IFRS Accounting Standards, regulations<sup>180</sup> proscribe in more detail specific impairments that are not prescribed by IFRSs. If these proscribed impairments are larger than those required by IFRS, the excess is deducted from regulatory prudential capital. However, the IFRS financial statements are not adjusted.

**163. Banks are required to submit annual audited financial statements and make them available to the public.**<sup>181</sup> Stand-alone annual financial statements for the previous year, accompanied by an external auditor's report and opinion, must be submitted to the CBCG by April 30 of the current year. Consolidated annual financial statements for the previous year, accompanied by an external auditor's report and opinion, must be submitted to the CBCG by May 31 of the current year.<sup>182</sup>

**164. Banks are required to submit management reports.**<sup>183</sup> The annual management report must be reviewed by an auditor in accordance with rules determined for PIEs. The management report must include a brief description of the business activities and organizational structure of the legal entity, an analysis of the financial position and business results, a description of the principal risks and uncertainties it faces, and a corporate governance report.

**165. Quarterly financial reports are also required to be prepared by banks in accordance with IFRS Accounting Standards.**<sup>184</sup> These quarterly reports, on an individual and consolidated basis, must be submitted to the CBCG. Stand-alone quarterly reports

are due by the end of the month following the quarter end, consolidated reports by the 15<sup>th</sup> day of the following month.<sup>185</sup> Reports are publicly disclosed on the CBCG website within five days of submission.

**166. Other general requirements of the Law on Accounting that are applicable to all legal entities apply to credit institutions.**<sup>186</sup> Financial reporting requirements are prescribed by the Law on Accounting, and the CBCG's decision prescribes the content, deadlines, and the method of compiling and submitting financial statements that banks are required to submit to the CBCG. Other than as prescribed by the CBCG in regulations,<sup>187</sup> the general requirements apply.

**167. Reporting guidelines for regulatory/prudential reporting for banks are in addition to the accounting standards used for the general-purpose financial statements.** Banks are obliged to provide the CBCG with both prudential reporting and financial statements. Banks are also required<sup>188</sup> to disclose (inter alia) a reconciliation identifying main sources of differences between the carrying value of amounts in the annual financial statement in accordance with the prudential consolidation, and the exposure amount used for regulatory purposes.

## Statutory Audit and Other Forms of Independent Assurance

**168. The annual financial statements of banks are required to be audited.** The Law on Credit Institutions requires an external audit of the legal entity and consolidated annual financial statement of credit institutions.<sup>189</sup> The auditing standards used in the audits of listed companies are set by the ICAM and the MoF. The currently endorsed version is the ISA published in the 2016-2017 ISA Handbook (ISA(M)).

<sup>179</sup> Decision on the Content, Deadlines and Method of Compiling and Submitting Bank's Financial Statements

<sup>180</sup> Decision on the Content, Deadlines and Method of Compiling and Submitting Bank's Financial Statements

<sup>181</sup> Decision on the Content, Deadlines and Method of Compiling and Submitting Bank's Financial Statements, Article 5

<sup>182</sup> The Law on Accounting, Article 18

<sup>183</sup> The Law on Accounting, Article 12

<sup>184</sup> Decision on the Content, Deadlines and Method of Compiling and Submitting Bank's Financial Statements, Article 5

<sup>185</sup> Decision on the Content, Deadlines and Method of Compiling and Submitting Bank's Financial Statements, Article 5

<sup>186</sup> The Law on Accounting, Article 18

<sup>187</sup> Decision on the Content, Deadlines and Method of Compiling and Submitting Bank's Financial Statements

<sup>188</sup> Decision on Public Disclosure of Information by a Credit Institution, Article 5

<sup>189</sup> The Law on Credit Institutions, Article 222

ISA(M) are required to be followed for the audits of PIEs.<sup>190</sup> There is no audit requirement for quarterly reports.

**169. Audit firms of banks in Montenegro are rotated.**<sup>191</sup> Audit partners are required to be rotated every four years. Audit firms are also required to be rotated every four years. The law establishes a mandatory cooling off period of three years.

**170. The CBCG approves audit firms to perform the audit of banks.**<sup>192</sup> The CBCG approves the appointment of the external auditor selected by the bank. The CBCG does not, however, compile or maintain a list of auditors authorized to audit the financial statements of banks. The MoF maintains and updates a register of authorized auditors and a register of audit companies in accordance with the Law on Auditing.<sup>193,194,195</sup> The MoF may revoke the license of an auditor.<sup>196</sup> The CBCG is obliged to inform the MoF of all facts that point to the violation of certain duties of the auditor.<sup>197</sup>

**171. There are explicit restrictions on the services that audit firms are allowed to provide to a bank.**<sup>198</sup> An audit company or an authorized auditor may not audit a legal entity where it has performed accountancy or advisory services, as well as an extensive list of bank and human resource specific services, in the audit year. An auditor is subject to the code of ethics of professional accountants.<sup>199</sup> General independence rules also apply, and the auditor must be independent from the entity to which it provides audit services.<sup>200,201</sup>

**172. There are no specific requirements for banks governing the appointment and termination of auditors.**<sup>202</sup> There are however the general requirements in the Company Law. The AGM makes the decision on the appointment or withdrawal from an agreement concluded with an auditor based on the recommendation of the audit committee and the board of directors. Legislation does not require the auditor of listed companies to attend the AGM.

**173. The CBCG has the authority to reject the selection of an audit company in certain circumstances.**<sup>203</sup> If the Central Bank determines that the annual financial statements have been prepared contrary to the regulations, it has authority not to accept the auditor's report.<sup>204</sup>

**174. A bank is required to notify the CBCG in the event of the termination of an audit appointment.**<sup>205</sup>

## Audit Committees

**175. Banks are required to have an audit and must appoint an audit committee comprising at least three members.**<sup>206</sup> The responsibilities of the audit committee are prescribed by Law on Auditing.<sup>207</sup> The committee should have at least one member with knowledge in the field of accountancy with relevant financial or auditing experience and cannot be an employee, a shareholder, or a member of the governing body. There is a requirement that all members of the committee, as a rule, be independent.<sup>208</sup> There is no legal requirement for the

<sup>190</sup> The Law on Auditing, Article 3

<sup>191</sup> The Law on Credit Institutions, Article 224

<sup>192</sup> The Law on Credit Institutions, Article 223 and 224

<sup>193</sup> The Law on Auditing, Article 10

<sup>194</sup> The Law on Auditing, Article 16

<sup>195</sup> The Law on Auditing, Article 21

<sup>196</sup> The Law on Auditing, Article 13

<sup>197</sup> The Law on Credit Institutions, Article 230

<sup>198</sup> The Law on Credit Institutions, Article 225

<sup>199</sup> The Law on Auditing, Article 26(7)

<sup>200</sup> The Law on Auditing, Article 44(2)

<sup>201</sup> The Law on Auditing, Article 8

<sup>202</sup> The Law on Credit Institutions, Article 223 and 224

<sup>203</sup> The Law on Credit Institutions, Article 224

<sup>204</sup> The Law on Credit Institutions, Article 230

<sup>205</sup> The Law on Credit Institutions, Article 226

<sup>206</sup> The Law on Auditing, Article 30

<sup>207</sup> The Law on Auditing, Article 31

<sup>208</sup> Council of the Central Bank of Montenegro Decision on Governance Arrangements in Credit Institutions, 26 November 2020, Article 22

audit committee to report to the shareholders on an annual basis. However, the internal requirements of entities typically do require this.

## Filing/ Publication of Financial Statements

**176. Banks are required to publish annual financial statements and management reports.** A fully audited and IFRS compliant legal entity and consolidated annual financial statement and management report must be published within 4 months of year end, and the annual financial statement must continue to be available for ten years.

**177. Financial statements can be accessed online.** The annual report is published on the websites of the tax administration and the CBCG and, if listed, on the website of the MNSE and the CMA.<sup>209</sup>

**178. The financial statements of selected banks were reviewed as part of the observed financial reporting practices and perceptions.** The review concludes that the reviewed bank financial statements generally appeared to be better presented than those of the other sectors. However, all financial institutions reviewed likely did not comply with at least some aspects of IFRS Accounting Standards. For details see *Section II. C: Observed Financial Reporting Practices and Perceptions* of this report.

## Monitoring and Enforcement – Financial Reporting

**179. The Supervision Department - Portfolio Management Office and Division for Off-site Examination within the CBCG is responsible for reviewing the financial statements of banks and financial institutions.** The dedicated unit of twelve staff members has responsibility for reviewing the

reporting of banks, including for confirming that IFRS financial reporting and disclosure requirements are followed. The Division also reviews auditor reports. The Division has limited dedicated IFRS resources and consequently its ability to review the annual financial statement for compliance with IFRS Accounting Standards beyond areas of specific interest (such as credit impairments) is constrained.

**180. The CBCG must reject financial statements if they do not provide a true and fair view of the financial position and performance of a bank.**<sup>210</sup> In this circumstance, the bank will be required to prepare a revised set of financial statements and obtain a new audit report. The CBCG must notify the MoF of the rejection of financial statements, and the reason, as well as any other regulators that may have received the financial statements. The CBCG has previously prosecuted legal entities under its supervision that had not complied.

**181. Law and regulations have requirements for communication between the CBCG and auditors.**<sup>211</sup> The external auditor is required to notify the CBCG immediately about facts that could lead to a qualified opinion, adverse opinion, or disclaimer opinion or about illicit or other facts and circumstances that may jeopardize the operation of a bank. There are protocols in place for the banking supervisor to engage with the auditors of banks, either directly or indirectly.<sup>212</sup> The Banking Supervisor can also request changes to the scope of audits and can request additional documentation.<sup>213</sup>

## Corporate Governance

**182. All banks operating in Montenegro are required to comply with various corporate governance requirements.** The Law on Credit Institutions<sup>214</sup> and several regulatory decisions<sup>215,216,217</sup> include extensive

<sup>209</sup> <https://www.cbcbg.me/me/kljucne-funkcije/kontrolna-funkcija/finansijski-izvjestaji-banaka>

<sup>210</sup> Law on Credit Institutions, Article 230

<sup>211</sup> The Law on Credit Institutions, Article 228

<sup>212</sup> The Law on Credit Institutions, Article 346

<sup>213</sup> The Law on Credit Institutions, Article 231

<sup>214</sup> The Law on Credit Institutions, Article 104

<sup>215</sup> Council of the Central Bank of Montenegro Decision on Governance Arrangements in Credit Institutions, 26 November 2020, Article 1

<sup>216</sup> Council of the Central Bank of Montenegro Decision on Governance Arrangements in Credit Institutions, 26 November 2020, Article 3

<sup>217</sup> Council of the Central Bank of Montenegro Decision on More Detailed Requirements for Selection and Appointment of Members of the Management Body and Holders of Core Functions in a Credit Institution, 26 November 2020, Article 1

corporate governance elements, particularly as relates to organization and operation of the business and the appointment of key officers. Banks are also required to disclose information about the board of directors, including other directorships held, the recruitment policy and procedures for the selection of members, knowledge, skills and expertise of members and the policy of diversity. Disclosures are also required on whether a risk committee has been established, and if so, how often it meets.<sup>218</sup> Beyond these, there are no additional statutory codes or regulations for corporate governance issued by the CBCG. However, listed banks are also required to comply with the laws for listed companies.

**183. The governance requirements for banks trigger specific requirements to disclose information about corporate governance practices applied.<sup>219</sup>**

The Accounting Law requires an entity to publish a corporate governance report that details (i) any code of governance it is subject to, (ii) any code, if applicable, that it has voluntarily chosen to apply; and (iii) any corporate governance practices applied, the application of which is not mandatory in accordance with the Law on Accounting. The governance required for banks falls under (iii) above. The Law also requires that an entity reports departures from the corporate governance code it is applying, and its reasons for doing so.

**184. The Law on Accounting requires PIEs including banks to disclose specified corporate governance information.<sup>220</sup>** The Law requires a description of the main features of the legal entity's internal control and risk management systems in relation to the

financial reporting process and information about its ownership structure. It also requires information on the composition and operation of administrative, management, and supervisory bodies and their committees. Finally, it requires a description of the diversity policy that is applied as well as stating the goals and operationalization of the policy.

**185. The general requirements as set out above (paragraphs 93 to 108 are applicable to banks.** Banks are legally obliged to have a board of directors.<sup>221</sup> A public JSC must have at least five board members. The responsibilities of the board of directors are set out in law.<sup>222</sup> The law requires holding a shareholders' AGM at least once a year,<sup>223</sup> within six months of the financial year end.<sup>224</sup>

## Performance Indicators – Financial Reporting and Auditing Requirements for Banks

**186. The overall rating attributed to Montenegro under the performance indicator “Financial Reporting and Auditing for Banks” is 3.5 out of 4, which equals the simple mean of the rating criteria comprising sub-indicators A and B below (3.5= (3.7+3.2)/2).**

*Sub-Indicator A. Financial reporting and auditing requirements for banks*

**187. The attributed rating is 3.7, which equals the simple mean of the rating criteria comprising sub-indicators A.1-A.3 below (i.e.  $3.7 = (4+3+4)/3$ ).**

<sup>218</sup> Council of the Central Bank of Montenegro Decision on Public Disclosure of Information by a Credit Institution, 26 November 2020, Article 4(2)

<sup>219</sup> The Law on Accounting, Article 15(1) and (2)

<sup>220</sup> The Law on Accounting, Article 15(3) to (6)

<sup>221</sup> The Company Law, Article 155

<sup>222</sup> The Company Law, Article 161

<sup>223</sup> The Company Law, Article 134

<sup>224</sup> The Company Law, Article 135



**Table 12.** Sub-Indicator A. Financial reporting and auditing requirements for banks

A.1. Financial reporting requirements for banks		
Montenegro Rating	4	Banks are required to prepare consolidated and legal entity interim and annual financial statements in compliance with IFRS, and a management report, and to incorporate a statement on corporate governance.
Rating Criteria	1	Criteria for "2" rating not met.
	2	Banks are required to prepare legal entity financial statements on an annual basis, in accordance with prescribed financial reporting standards.
	3	In addition to requirements under "2": Banks are required to prepare a management report (or MD&A). Banks are required to apply IFRS for consolidated annual financial statement.
	4	In addition to requirements under "3": Banks are required to prepare interim consolidated IFRS compliant financial statements.
A.2. Audit requirements for banks		
Montenegro Rating	3	The legal entity and consolidated financial statements of banks are subject to external audit, the AGM appoints the auditors on recommendation of the board of directors, and the auditor attests to the consistency and accuracy of the management report and the corporate governance report.  Banks are required to have an audit committee. The committee should have at least one member with relevant financial or auditing experience. There is no requirement that all members of the committee be independent.  However, interim financial statements are not reviewed by auditors and the audit committee is not required to have more than one independent member.  The audit review processes are performed in accordance with ISA(M).
Rating Criteria	1	Criteria for "2" rating not met.
	2	The legal entity and consolidated financial statements of banks are subject to annual statutory audits. Shareholders (at the AGM) or board of directors (i.e. a governance body independent of management) is legally responsible for the appointment and dismissal of auditors of banks.
	3	In addition to requirements under "2": The auditor's report is required to attest whether the management report (MD&A) and other financial information have been read for consistency with the financial statements. Banks are required to form an audit committee. At least one member of the audit committee is required to be an independent director. At least one member is required to have recent and relevant financial or auditing experience.
	4	In addition to requirements under "3": Interim consolidated financial statements of banks are required to be reviewed by auditors. The audit committee comprises only independent directors. At least one member is required to have recent and relevant financial reporting or auditing experience. Auditors of banks are required to be appointed by shareholders at the AGM (if applicable) or by the board of directors on the recommendation of the audit committee.

### A.3. Timeliness and public disclosure of financial reports for banks

Montenegro Rating	4	<p>Banks are required to submit the full sets of audited legal entity and consolidated annual financial statement to the CBCG along with the audit report, management report, and a statement of corporate governance. The CBCG makes the reports publicly available on its website.</p> <p>Banks are also required to submit interim and quarterly financial statements, with accompanying management discussion and analysis, to the CBCG. The CBCG makes these reports publicly available on its website.</p> <p>The deadline for publication of the audited annual reports is four months after the reporting date.</p>
	1	Criteria for "2" rating not met.
Rating Criteria	2	<p>Banks are required to make legal entity and consolidated financial statements publicly available, although this may be in an abridged or incomplete form.</p> <p>Legal requirements are such that access to financial statements is limited or costly.</p> <p>The deadline for publication of annual reports of banks is no later than nine months after the reporting date.</p>
	3	<p>In addition to requirements under "2":</p> <p>The audit opinion is made publicly available.</p> <p>Legal requirements are such that financial statements are disseminated broadly, but there are limitations such as cost and ease of searchability.</p> <p>The deadline for publication of annual reports of banks is no later than six months after the reporting date.</p>
	4	<p>Banks are required to make the full sets of legal entity and consolidated financial statements publicly available. The audit report is also made publicly available.</p> <p>Banks are required to publicly disclose the interim financial statements, with accompanying management discussion and analysis.</p> <p>Legal requirements are such that financial statements are readily searchable and accessible, at low or no cost.</p> <p>The deadline for publication of annual reports of banks is no later than four months after the reporting date.</p>

*Sub-Indicator B. Monitoring and enforcement of the financial reporting requirements of banks*

**188. The attributed rating is 3.2, which equals the simple mean of the rating criteria comprising sub-indicators B.1-B.5 below (i.e.  $3.2 = (3+4+4+1+4)/5$ ).**

**Table 13.** Sub-Indicator B: Monitoring and enforcement of the financial reporting requirements of banks

B.1. Review of bank annual financial statements		
Montenegro Rating	3	<p>The CBCG has a procedure for the review of the annual financial statement of banks. The procedure includes a review of both the prudential and the IFRS elements of the financial statements and leverages extensive prudential knowledge of each banks' activities. The reviews are conducted both before and after publication of the financial statements.</p> <p>However, there are capacity limitations on the ability of CBCG to perform the IFRS compliance component of reviews and consequently that element of the review is limited in scope.</p> <p>The review of financial statements indicates that in spite of requirements to comply with IFRS, there are some weaknesses in the quality of that compliance.<sup>225</sup></p>
Rating Criteria	1	Criteria for "2" rating not met.
	2	Review of the annual financial statement by the banking supervisor has <b>significant limitations</b> .
	3	Review of the annual financial statement by the banking supervisor has <b>minor limitations</b> .
	4	Review of the annual financial statement by the banking supervisor is <b>fully adequate</b> .
B.2. Reconciliation requirements between equity and regulatory capital of banks		
Montenegro Rating	4	<p>The law requires that banks submit a reconciliation to the CBCG of differences between prudential-financial returns and the annual financial statement. This reconciliation is reviewed in detail by the CBCG.</p>
Rating Criteria	1	Criteria for "2" rating not met.
	2	Reconciliation requirements between equity and regulatory capital have <b>significant limitations</b> .
	3	Reconciliation requirements between equity and regulatory capital have <b>minor limitations</b> .
	4	Reconciliation requirements between equity and regulatory capital are <b>fully adequate</b> .
B.3. Communication with external auditors about banks		
Montenegro Rating	4	<p>The law provides and imposes numerous communication tools for the CBCG and auditors, including prior notification of qualifications to the audit report, regular meetings, the right to set or amend the scope of the audit and the right to request additional reports.</p>

<sup>225</sup> Refer to Section II. C: Observed Financial Reporting Practices and Perceptions of this report.

B.3. Communication with external auditors about banks		
Rating Criteria	1	Criteria for "2" rating not met.
	2	Communication between the banking supervisor and external auditors of banks have <b>significant limitations</b> .
	3	Communication between the banking supervisor and external auditors of banks have <b>minor limitations</b> .
	4	Communication between the banking supervisor and external auditors of banks is <b>fully adequate</b> .
B.4. Reporting on the review of financial reporting of banks		
Montenegro Rating	1	The CBCG does produce an annual report. However, this report does not include any reference to findings arising from the IFRS review of financial statements as the law prohibits the CBCG from publicly disclosing information arising from examination reports of individual banks.
Rating Criteria	1	Criteria for "2" rating not met.
	2	Reporting by the banking supervisor on review of financial statements of banks have <b>significant limitations</b> .
	3	Reporting by the banking supervisor on review of financial statements of banks have <b>minor limitations</b> .
	4	Reporting by the banking supervisor on review of financial statements of banks is <b>fully adequate</b> .
B.5. Supervisory measures and sanctions for banks		
Montenegro Rating	4	The CBCG has the ability to impose sanctions for non-compliant financial statements, ranging from regulatory fines to obliging the re-issue of financial statements. Examples exist where this authority has been applied.
Rating Criteria	1	Criteria for "2" rating not met.
	2	Supervisory measures and sanctions that can be imposed by the banking supervisor have <b>significant limitations</b> .
	3	Supervisory measures and sanctions that can be imposed by the banking supervisor have <b>minor limitations</b> .
	4	Supervisory measures and sanctions that can be imposed by the banking supervisor are <b>fully adequate</b> .

## 4. Insurance Sector

### Overview of the Insurance Sector

189. Montenegro's insurance sector is growing, but at a slower rate than the country as a whole. The sector grew by 5.49 percent in 2021 and 9.59 percent in 2022. Total premium value grew from €98.8 million in 2021 (1.99 percent of GDP) to €108.3 million in 2022 (1.87 percent of GDP). There are nine insurance operatives in Montenegro, four life companies and 5 short term insurers. There are currently no domestic reinsurers. Eight of the insurers operating in Montenegro are foreign owned. One insurer is listed on the stock exchange.

### Insurance Regulator

190. The ISAM is the regulatory body responsible for supervising insurance companies and other legal and natural persons that provide services within the insurance industry. The ISAM was established by law in 2007.<sup>226</sup> The ISAM regulates the industry and

publishes and maintains regulations on requirements including information provided by insurers,<sup>227</sup> contents of external audit reports,<sup>228</sup> chart of accounts of insurers,<sup>229</sup> guidelines, instructions, and other general acts. The ISAM is a self-financing organization funded predominantly through fees received from the industry.<sup>230</sup>

191. The ISAM prepares an annual report on its activities. The report is required by law<sup>231</sup> and details the work the ISAM has performed, its financial report, and the state of the industry. These reports are available to the public.<sup>232</sup> IFRS reporting is not discussed in the report and the report does not deal with IFRS shortcomings or noncompliance.

### Financial Reporting Requirements for Insurance Organizations

192. PIEs, which include all insurers, are required by the Law on Accounting to submit IFRS(M)-compliant annual financial statements, including management reports and audit reports, to the tax administration.<sup>233</sup> Under IFRS(M), IFRS 9 and IFRS 17

**Table 14.** Gross written premium and claims for six months to June 30

€ millions	Gross written premium		Claims	
	6 months to June 2023	6 Months to June 2022	6 months to June 2023	6 Months to June 2022
Non-life insurance	49.5	44.8	17.8	16.0
Life insurance	10.3	10.1	5.0	4.9
<b>Total</b>	<b>59.8</b>	<b>54.9</b>	<b>22.8</b>	<b>20.9</b>

Source: Source: Insurance Regulator website<sup>234</sup>

<sup>226</sup> Law on Insurance, dated December 22, 2006 (last updated 2021), Article 1

<sup>227</sup> Rulebook on the detailed content and method of providing information provided by insurance companies

<sup>228</sup> Rulebook on the detailed contents of external audit reports in the insurance companies

<sup>229</sup> Regulations on chart of accounts of insurance companies

<sup>230</sup> According to the latest available data (from 2022) provided by ICAM: (1) Income from insurance companies supervision fees (97.54%); (2) Income from license, consent and approval fees (1.47%); Income from fees for measure of supervision imposed due to illegality and irregularities in the business operations (0.99%).

<sup>231</sup> The Law on Insurance, Article 185(5)

<sup>232</sup> The Law on State Administration, Article 51

<sup>233</sup> The Law on Accounting, Article 5

<sup>234</sup> Preliminarni izvjestaj January 1 to June 30, 2023. Godine.xls

will only be applied by the insurance industry from January 1, 2026. Insurers are required to comply with IFRS(M) for general purpose consolidated financial statements and are obliged to submit consolidated financial statements.<sup>235</sup> Insurers are also required to prepare financial statements at a legal entity level in compliance with IFRS(M). The financial statements are required to be prepared applying a template prescribed by the ICAM and the chart of accounts stipulated by the ISAM. There are no known inconsistencies between these requirements and IFRS(M).

**193. Insurers are required to submit annual audited financial statements and make them available to the public.** The deadline for submitting annual financial statements is March 31 of the year following the financial year, and May 31 for the consolidated financial statements. Financial statements must be submitted to the tax administration.<sup>236</sup> The deadline for submitting audited annual financial statements to the ISAM is May 1 of the year following the financial year.<sup>237</sup> The ISAM is required to publish the financial statements on its website.<sup>238</sup>

**194. Certain subsidiaries are exempt from preparing annual financial statements.** A legal entity, which is a dependent legal entity of another parent legal entity, is not required to prepare consolidated annual financial statements and a consolidated management report if the parent legal entity is (1) under the control of another parent legal entity from a member state of the European Union; and (2) publishes consolidated annual financial reports, consolidated management reports, and associated audit reports.<sup>239</sup>

**195. Insurers are required to submit management reports.**<sup>240</sup> The annual management report must

be reviewed by an auditor in accordance with rules determined for PIEs. The management report must include a brief description of the business activities and organizational structure of the legal entity, an analysis of the financial position and business results, a description of the principal risks and uncertainties it faces, and a corporate governance report.

**196. Quarterly financial reports (interim reports) are also required to be prepared by insurers in accordance with IFRS(M).**<sup>241</sup> Deadlines are prescribed by the Law on Accounting.

**197. General requirements applicable to all legal entities apply to insurers.**

**198. Reporting guidelines for statistical reporting for insurers are in addition to the accounting standards used for the general-purpose financial statements.** Insurers are obliged to report quarterly statistics to the ISAM in addition to the reporting required by the Law on Accounting. Insurers are required to disclose significant differences between financial statements and the statistical reporting to the ISAM.<sup>242</sup>

## Statutory Audit and Other Forms of Independent Assurance

**199. The annual financial statements of insurers are required to be audited.**<sup>243,244,245</sup> The Law on Accounting and the Law on Auditing require an external audit of the annual financial statements of PIEs. The auditing standards used in the audits of listed companies are set by the ICAM and the MoF. The currently endorsed version is ISA(M).<sup>246</sup> ISA(M) are required to be followed for the audits of PIEs.<sup>247</sup>

<sup>235</sup> The Law on Accounting, Article 12

<sup>236</sup> The Law on Accounting, Article 11

<sup>237</sup> Rulebook on the contents of reports, notifications and data submitted to the Insurance Supervision Agency, Article 3

<sup>238</sup> The Law on Accounting, Article 18

<sup>239</sup> The Law on Accounting, Article 9

<sup>240</sup> The Law on Accounting, Article 12

<sup>241</sup> The Law on Accounting, Article 18

<sup>242</sup> Rulebook on detailed contents of external audit reports in the insurance companies, no.065/15, 019/19, 029/20 and 126/22)

<sup>243</sup> The Law on Auditing, Article 29

<sup>244</sup> The Law on Accounting, Article 11

<sup>245</sup> The Law on Accounting, Article 18

<sup>246</sup> ISA published in the 2016-2017 ISA Handbook

<sup>247</sup> The Law on Auditing, Article 3



**200. Audit firms of insurers in Montenegro are rotated.** Audit partners are required to be rotated every four years.<sup>248</sup> Audit firms are also required to be rotated every four years.<sup>249</sup> The law includes a mandatory cooling off period of one year.<sup>250</sup>

**201. The law sets additional requirements for auditors of insurers.** Auditors must provide a description of the methods used by the insurance company for the calculation of technical reserves - if there has been a change, the auditor is obliged to clarify the change and assess its impact on the financial result of the insurance company. The opinion is given by an actuary licensed person authorized by the ISAM to perform this work.<sup>251</sup> This opinion is provided directly to the regulator and is not made public.

**202. There are explicit restrictions on the services audit firms are allowed to provide to their audit client.** An audit company or an authorized auditor may not audit a legal entity with which it is related, nor may it provide tax or consulting services to that company.<sup>252</sup> An auditor is also subject to the code of ethics of professional accountants.<sup>253,254</sup> General independence rules also apply, and the auditor must be independent from the entity to which it provides audit services.<sup>255,256</sup> The annual audit of an insurer cannot be performed by an auditor that earned more than half of its total income in the previous year auditing the financial statements of that insurance company.<sup>257</sup>

**203. There are specific requirements for insurers governing the appointment and termination of auditors.** An external auditor is elected by the insurance company's shareholders' AGM, with the prior approval of the ISAM.<sup>258</sup> The audit committee and board of directors propose the selection of auditors to the AGM.

**204. The ISAM does not have the authority to reject the appointment of an auditor of an insurer.** The MoF maintains and updates a register of authorized auditors and a register of audit companies in accordance with the Law on Auditing.<sup>259,260,261</sup> The MoF may revoke the license of an auditor.<sup>262</sup> If an auditor violates the independence or rotation requirements of the Insurance Law, the ISAM can order a new audit by another auditor.<sup>263</sup> The ISAM is obliged to notify the MoF in the event of a failure to complete the audit.<sup>264</sup> An insurer is required to notify the ISAM in the event of the termination of an audit appointment.

## Audit Committees

**205. Insurers are required to have an audit and therefore must appoint an audit committee comprising of at least three members.**<sup>265</sup> The responsibilities of the audit committee are prescribed by the Law on Auditing. The audit committee shall prepare the financial reporting; monitor the effectiveness of internal controls and internal audit; monitor the statutory audit of

<sup>248</sup> The Law on Insurance, Article 168

<sup>249</sup> The Law on Insurance, Article 168

<sup>250</sup> The Law on Insurance, Article 169

<sup>251</sup> Rulebook on detailed contents of external audit report

<sup>252</sup> The Law on Insurance, Article 168

<sup>253</sup> The Law on Auditing, Article 9(2)

<sup>254</sup> The Law on Auditing, Article 26(7)

<sup>255</sup> The Law on Auditing, Article 44(2)

<sup>256</sup> The Law on Auditing, Article 8

<sup>257</sup> The Law on Insurance, Article 168

<sup>258</sup> The Law on Insurance, Article 168

<sup>259</sup> The Law on Auditing, Article 10

<sup>260</sup> The Law on Auditing, Article 16

<sup>261</sup> The Law on Auditing, Article 21

<sup>262</sup> The Law on Auditing, Article 13

<sup>263</sup> The Law on Insurance, Article 168

<sup>264</sup> The Law on Insurance, Article 171

<sup>265</sup> The Law on Auditing, Article 30

annual and consolidated financial statements; make recommendations to the AGM on the selection of the audit company or authorized auditor; and consider plans and annual reports for internal audit.<sup>266</sup> At least one member of the audit committee shall have knowledge in the field of accountancy and cannot be an employee, a shareholder or a member of the governing body.<sup>267</sup>

**206. The annual report on the internal audit, and the opinion of the board of directors of the insurance company, is separately considered at the AGM, where the company's annual audited financial report is considered.**<sup>268,269</sup>

### Filing/Publication of Financial Statements

**207. Insurers are required to publish annually an audited and IFRS(M) compliant consolidated annual financial statement and a management report.** Publication is required within four months of year end and the annual financial statement must continue to be available for ten years.

**208. Financial statements are publicly available.** The annual report is published on the websites of the tax administration and the ISAM. Insurance companies are obliged to publish abbreviated financial statements in one or more media outlets distributed in Montenegro.<sup>270</sup>

**209. The financial statements of selected insurers were reviewed as part of the observed financial reporting practices and perceptions.** The review concludes that the insurer institutions reviewed likely did not comply with at least some aspects of IFRS Accounting Standards. For details see *Section II. C: Observed Financial Reporting Practices and Perceptions* of this report.

### Monitoring and Enforcement – Financial Reporting

**210. The Department for Analysis, Finance, and Cooperation and Department of Off-Site Supervision within the ISAM are responsible for reviewing financial statements of insurers.** The dedicated unit of six staff members has responsibility for reviewing financial statements, focused on comparing financial data to prudential and statistical data previously reported to ISAM. The department does have specialist IFRS Accounting Standards knowledge and review the financial statements for compliance for IFRS. The unit reviews the stand-alone financial statements that are then posted on the ISAM website. However, if an insurer is also required to produce consolidated financial statements, these are not subject to the same level of review. The unit also assesses the financial performance of the insurer. If the insurance company does not comply with reporting obligations, the ISAM is authorized to impose supervisory measures to remedy the non-compliance and administrative penalty.

**211. Law and regulations have requirements for communication between the ISAM and auditors.** The auditor must notify the ISAM about breaches of law, regulations, or provisions, major fraud or embezzlement, significant changes in financial results, or other facts and circumstances that may jeopardize operation of the insurance company.<sup>271</sup> The auditors are not, however, required to inform the ISAM if they do not intend to issue a clean audit report. The ISAM informs the MoF about the identified omissions and irregularities in the report on the performed audit and the work of the external auditor during the audit of the insurance company.<sup>272</sup> The ISAM can require a review of the external auditors by another auditor appointed by the agency.

<sup>266</sup> The Law on Auditing, Article 31

<sup>267</sup> The Law on Auditing, Article 30

<sup>268</sup> The Law on Insurance, Article 113

<sup>269</sup> The Law on Insurance, Article 106

<sup>270</sup> The Law on Insurance, Article 172

<sup>271</sup> The Law on Insurance, Article 169 and 170

<sup>272</sup> The Law on Insurance, Article 171

## Corporate Governance

**212. All insurers operating in Montenegro are required to comply with various corporate governance requirements.**<sup>273</sup> The Law on Insurance establishes a number of specific and general requirements for insurers, particularly as related to organization of business and appointment of key individuals. Beyond these, there are no additional statutory codes or regulations issued by the ISAM for corporate governance. However, listed insurers are also required to comply with the laws for listed companies.

**213. The governance requirements for insurers trigger specific requirements to disclose information about corporate governance practices applied.**<sup>274</sup> The Law on Accounting requires an entity to publish a corporate governance report that details (i) any code of governance it is subject to, (ii) any code, if applicable, that it has voluntarily chosen to apply; and (iii) any corporate governance practices applied, the application of which is not mandatory in accordance with the Accounting Law. The governance requirements for insurers falls under (iii) above. The law also requires that an entity explains departures from the corporate governance code it is applying, and its reasons for doing so.

**214. The general requirements as set out above (paragraphs 93 to 108) are applicable to insurers.** Insurers are legally obliged to have a board of directors.<sup>275</sup> A public JSC must have at least five board members. The responsibilities of the board of directors are set out in law.<sup>276</sup> The law requires that a shareholders' AGM is held at least once a year,<sup>277</sup> within six months of the financial year end.<sup>278</sup>

## Performance Indicators – Financial Reporting and Auditing for Insurance Companies

**215. The overall rating attributed under the performance indicator “Financial reporting and auditing for insurance companies” is 2.9 out of 4, which equals the simple mean of the rating criteria comprising sub-indicators A and B below ( $2.9 = (3+2.8)/2$ ).**

*Sub-Indicator A. Financial reporting and auditing requirements for insurance companies*

**216. The attributed rating is 3, which equals the simple mean of the rating criteria comprising sub-indicators A.1-A.3 below (i.e.,  $3 = (2+3+4)/3$ ).**

**Table 15.** Sub-Indicator A. Financial reporting and auditing requirements for insurance companies

A.1. Financial reporting requirements for insurance companies	
Montenegro Rating	<p><b>2</b></p> <p>Insurers are required to prepare consolidated and legal entity annual financial statements, a management report, and a statement on corporate governance. These companies are also required to prepare quarterly consolidated financial reports. These consolidated financial statements are prepared in accordance with IFRS(M)).</p> <p>However, IFRS(M) are not fully converged with current IFRS. They are based on IFRS as published in 2020, excluding IFRS 9 and IFRS 17. IFRS 9 and IFRS 17 will be applied by the insurance industry from January 1, 2026.</p>

<sup>273</sup> The Law on Insurance, Chapter V

<sup>274</sup> The Law on Accounting, Article 15(1) and (2)

<sup>275</sup> The Company Law, Article 155

<sup>276</sup> The Company Law, Article 161

<sup>277</sup> The Company Law, Article 134

<sup>278</sup> The Company Law, Article 135

A.1. Financial reporting requirements for insurance companies		
Rating Criteria	1	Criteria for "2" rating not met.
	2	Insurance companies are required to prepare legal entity financial statements on an annual basis, in accordance with prescribed financial reporting standards.
	3	In addition to requirements under "2": Insurance companies are required to prepare a management report (or MD&A). Insurance companies are required to apply IFRS for consolidated annual financial statement.
	4	In addition to requirements under "3": Insurance companies are required to prepare IFRS compliant interim consolidated financial statements.
A.2. Audit requirements for insurance companies		
Montenegro Rating	3	The legal entity and consolidated financial statements of insurers are subject to external audit, the AGM appoints the auditors on the recommendation of the board of directors, and the auditor attests to the consistency and accuracy of the management report and the corporate governance report.  Insurers are required to have an audit committee with at least one independent member and one member with relevant financial or auditing experience.  However, interim financial statements are not reviewed by auditors and the audit committee is not required to have more than one independent member.
Rating Criteria	1	Criteria for "2" rating not met.
	2	The legal entity and consolidated financial statements of insurance companies are subject to annual statutory audits.  Shareholders (at the AGM) or board of directors (i.e., a governance body independent of management) is legally responsible for the appointment and dismissal of auditors of insurance companies.
	3	In addition to requirements under "2": The auditor's report is required to attest whether the management report (or MD&A) and other financial information in the annual report have been read for consistency with the financial statements. Insurance companies are required to form an audit committee. At least one member of the audit committee is required to be an independent director. At least one member is required to have recent and relevant financial or auditing experience.
	4	In addition to requirements under "3": Interim consolidated financial statements of insurance companies are required to be reviewed by the auditors.  The audit committee comprises only independent directors. At least one member is required to have recent and relevant financial reporting or auditing experience.  Auditors of insurance companies are required to be appointed by shareholders at the AGM (if applicable) or by the board of directors on the recommendation of the audit committee.

A.3. Timeliness and public disclosure of financial reports for insurance companies		
Montenegro Rating	4	<p>Insurers are required to submit the full sets of legal entity and consolidated annual financial statement to the ISAM along with the audit report, management report and statement of corporate governance. The ISAM makes the reports publicly available on its website.</p> <p>Insurers are also required to submit interim and quarterly financial statements, with accompanying management discussion and analysis, to the ISAM. The ISAM makes these reports publicly available on its website.</p> <p>The deadline for publication of the annual reports is four months after reporting date.</p>
	1	Criteria for “2” rating not met.
Rating Criteria	2	<p>Insurance companies are required to make legal entity and consolidated financial statements publicly available, although this may be in an abridged or incomplete form.</p> <p>Legal requirements are such that access to financial statements is limited or costly.</p> <p>The deadline for publication of annual reports of insurance companies is no later than nine months after the reporting date.</p>
	3	<p>In addition to requirements under “2”:</p> <p>The audit opinion is also made publicly available.</p> <p>Legal requirements are such that financial statements are disseminated broadly, but there are limitations such as cost and ease of searchability.</p> <p>The deadline for publication of annual reports of insurance companies is no later than six months after the reporting date.</p>
	4	<p>Insurance companies are required to make the full sets of legal entity and consolidated financial statements publicly available. The auditor’s report is also made publicly available.</p> <p>Insurance companies are also required to publicly disclose the interim financial statements, with accompanying management discussion and analysis.</p> <p>Legal requirements are such that financial statements are readily searchable and accessible, at low or no cost.</p> <p>The deadline for publication of annual reports of insurance companies is no later than four months after the reporting date.</p>

*Sub-Indicator B. Monitoring and enforcement of the financial reporting requirements of insurance companies*

**217. The attributed rating is 2.8, which equals the simple mean of the rating criteria comprising sub-indicators B.1-B.4 below (i.e.,  $2.8 = (3+3+1+4)/4$ ).**

**Table 16.** Sub-Indicator B: Monitoring and enforcement of the financial reporting requirements of insurance companies

B.1. Review of the insurance company's annual financial statements		
Montenegro Rating	3	<p>The ISAM has a procedure for the review of the annual financial statement of insurers. The procedure includes a review of the IFRS elements of the financial statements as they relate to the supervisory data previously received by the ISAM and the IFRS disclosures. The review monitors and analyses new trends and risks in the insurance sector and seeks to understand the interaction between the annual financial statement and supervisory data. This helps enforce and ensure compliance with IFRS.</p> <p>However, there are limitations on the extent of the ISAM review, as noted in section C to this report.</p>
Rating Criteria	1	Criteria for "2" rating not met.
	2	Review of the annual financial statement by the insurance supervisor has <b>significant limitations</b> .
	3	Review of the annual financial statement by the insurance supervisor has <b>minor limitations</b> .
	4	Review of the annual financial statement by the insurance supervisor is <b>fully adequate</b> .
B.2. Communication with external auditors on insurance companies		
Montenegro Rating	3	<p>The law provides and imposes numerous communication tools for the ISAM and auditors including prior notification of breaches of laws or regulation. However, there is no requirement to report qualifications to the audit report or have regular meetings. ISAM has the right to request additional reports or a review by another set of auditors.</p>
Rating Criteria	1	Criteria for "2" rating not met.
	2	Communication between the insurance supervisor and external auditors of insurance companies have <b>significant limitations</b> .
	3	Communication between the insurance supervisor and external auditors of insurance companies have <b>minor limitations</b> .
	4	Communication between the insurance supervisor and external auditors of insurance companies is <b>fully adequate</b> .
B.3. Reporting on the review of financial reporting of insurance companies		
Montenegro Rating	1	<p>The ISAM does produce an annual report. However, this report does not include any reference to findings arising from the review of financial statements.</p>
Rating Criteria	1	Criteria for "2" rating not met.
	2	Reporting by the insurance supervisor on the review of financial statements of insurance companies has <b>significant limitations</b> .



B.3. Reporting on the review of financial reporting of insurance companies		
Rating Criteria	3	Reporting by the insurance supervisor on the review of financial statements of insurance companies has <b>minor limitations</b> .
	4	Reporting by the insurance supervisor on the review of financial statements of insurance companies is <b>fully adequate</b> .
B.4. Supervisory measures and sanctions		
Montenegro Rating	4	The ISAM has the ability to impose sanctions for non-compliant financial statements, ranging from regulatory fines to obliging the re-issue of financial statements..
Rating Criteria	1	Criteria for "2" rating not met.
	2	Supervisory measures and sanctions that can be imposed by the insurance supervisor have <b>significant limitations</b> .
	3	Supervisory measures and sanctions that can be imposed by the insurance supervisor have <b>minor limitations</b> .
	4	Supervisory measures and sanctions that can be imposed by the insurance supervisor are <b>fully adequate</b> .

## 5. State-Owned Enterprises

### Overview of SOEs

218. There are 50 state-level SOEs and 107 municipality-level MOEs in Montenegro in 2024.<sup>279</sup> All SOEs and MOEs follow the same reporting obligations as other companies and have minimum publication requirements according to their size. All are subject to the general accounting and financial reporting requirements outlined in the Law on Accounting and in the Rulebook for accounting. The audit requirements vary by company size, for the medium and large companies' audits are required, while audits of small and micro companies are not mandatory according to the Law on Auditing and are therefore not required for small SOEs.

219. While MOEs are not centrally monitored, the MoF has a list of all MOEs. The MoF Division for Local Self-Government under the Directorate of Budget has obtained a cross-section of the number of employees for the first six months of 2023 and been able to confirm the number of SOEs. On the basis of a contract concluded between the MoF and the municipalities, the MoF and the tax administration monitor employment and repayment of past debt. In 2015, several municipalities were approved for restructuring of their tax debt linked to companies and public institutions founded by the municipalities. The approved reprogramming was made for a period of 20 years for some municipalities, and five years for others.

220. SOEs are owned by the government and are under the authority of a range of public institutions

<sup>279</sup> Census performed by the MoF

including line ministries, agencies, and independent funds (e.g. pension fund, employment fund) and under the financial monitoring of the MoF.<sup>280</sup> The Fiscal Risk Division of the MoF monitors SOEs that are, directly or indirectly, majority owned by the Government. The MoF requires annual business plans as well as annual reports and prepares opinions for the approval of those by government. Other departments of the MoF monitor some aspect of SOEs, such as outstanding loans that have guarantees, dividends, and subsidies because of their impact on the budget. To adopt the business plan and the financial plan for the coming year, the government requires a positive opinion from the MoF. The opinion of the MoF is submitted to the Commission for Economic Policy and Financial System for consideration and approval.

**221. The MoF monitors and supervises majority owned SOEs through the Division for Fiscal Risks.** This Division is responsible for: (i) keeping records and analysing SOEs' financial condition; (ii) preparing impact assessments to find optimal solutions for the improvement of legal regulations impacting SOEs; (iii) monitoring and evaluating the quality of SOEs' business plan, and (iii) assessing and periodically monitoring SOEs' fiscal risks. The Division also prepares opinions on the business plans and annual reports, including financial statements of SOEs, for the decision of the government as noted above. In practice, the fiscal risks are only just starting to be monitored. For many years MoF was collecting data but not analyzing it. In February 2024 the Division created a comprehensive publicly available register of SOEs with key financial indicators and analyses of key performance indicators and financial ratios.<sup>281</sup>

**222. The MoF is implementing a monitoring tool on SOE-related fiscal risks (Health Check Tool) with the assistance of the International Monetary Fund.** The system has been customized to monitor several structural and performance ratios for SOEs, and the analysis is currently in progress. The MoF plans to present a report in 2024 to the government on the full portfolio of SOEs, based on the latest available data

(2022). As of June 2024, the SOE division had analyzed about all SOEs using the Health Check tool.

**223. The Ministry of Capital Investment<sup>282</sup> was given a special role of monitoring the energy companies in 2022.** In view of the energy situation, it was tasked to prepare information on the financial and business risks of companies operating in the energy sector. It prepared and submitted to government an analysis of the business operations of companies in the energy sector with a proposal for conclusions.

## SOE Regulations

**224. There are no specific laws governing SOEs or MOEs.** The previous Law on SOEs was abolished in 2010, and recently the government decided to develop a new law. The Law on Prevention of Corruption defines the potential conflict of interest of a public official who participates in the governance of SOEs and MOEs in which the state or a municipality holds more than one third of the capital. A public official is defined as a person elected or appointed, among other things, in a public institution, a public enterprise, or another economic society, i.e. a legal entity that exercises public powers.

**225. With a few exceptions, SOEs are incorporated as legal entities with economic activities, such as JSCs or LLCs.** The Investment and Development Fund for Montenegro has a specific legal status and is not incorporated.

## Financial Reporting and Independent Audit Requirements for SOEs

**226. Most SOEs must use IFRS Accounting Standards for financial reporting.** Larger SOEs must also undergo an independent audit under ISA, while small SOEs are not audited; the Law on Auditing identifies all types of entities that should undergo an audit. The Division for Fiscal Risk of SOEs maintains the registry of SOE auditors.

<sup>280</sup> Montenegro has a decentralized and highly fragmented model of ownership. MoF role has been very small to date, and the fiscal risk division has limited number of staffing.

<sup>281</sup> <https://www.gov.me/clanak/registar-javnih-preduzeca-i-privrednih-drustava-u-vecinskom-vlasnistvu-drzave>

<sup>282</sup> The ministry has been disbanded and the energy companies are now under the Ministry of Energy.

**227. Financial statements of all SOEs, regardless of size, must be approved by the government.**

In addition to the normal approval process of financial statements by the AGM, the Government needs to approve SOE financial statements after recommendation of the MoF. Medium and large entities must also submit the audit report.

**228. Government approval of SOEs financial statements can be delayed, which impedes the availability of financial information for some SOEs.** If the MoF disagrees with the financial statements of an SOE, based on the information received including the Auditors report, it can propose that the government request a restated financial statement and new audit. In practice no such case was observed.

**229. The State Audit Institution reviews SOEs performance.** It conducts performance reviews and financial audits on a rotation basis. It does not perform any annual audit under ISAs.

**230. Financial statements of SOEs are submitted on time to the financial statement repository managed by the Tax authorities.** In 2024 all central SOEs monitored by the MoF submitted their 2023 financial statements before April 30, 2024. The submission date was extended from end of March to end of June in 2024.

**231. A review of the audit reports of SOEs for 2023, compiled in a database from the MoF finds that about one third of audit reports express an unmodified (clean) opinion.** Out of 31 audited SOEs financial statements for 2023, only 12 financial statements audits were concluded with an unmodified audit opinion, including 5 emphasis of matter. 18 audit reports had a qualified opinion, and one an adverse (negative) opinion.<sup>283</sup> The population of SOEs auditor is not restricted and includes a wide variety of firms that are not limited to member firms of international networks.

**232. A review of sample financial statements of SOEs was conducted during the ROSC A&A assessment, which identified deficiencies in the quality of the SOE financial reporting.** The details of the review are presented in Section II. C. Observed Financial Reporting Practices and Perceptions below.

## Corporate Governance

**233. There are no specific corporate governance requirements for SOEs or MOEs.** Those SOEs that are generally JSCs or LLCs are required to have an audit committee. In Montenegro, the audit committees are separate from the board of directors. The latter are usually closely related to the changes in the country's political landscape. Absence of transparent guidelines, policies and procedures for selection and appointment of the members of the board of directors creates opportunities for corporate conflicts.

**234. The MoF reviews the nomination of audit committee members proposed by the SOE board of directors.** The MoF has established registers for the members of SOE board of directors and audit committee members. Audit committee members are proposed by the SOE board of directors and approved by the MoF, after a review of their education, experience, and skills. Directors are generally appointed by the government.

**235. The quality of audit committee in SOEs was found by the State Audit Institution (SAI) to be deficient.** SAI has reported on the quality of the work of SOEs audit committees in 2021 in a horizontal report on the efficiency of the work of audit committees in companies with majority state ownership. The study was conducted across all sectors. The study found that out of 23 SOEs, audit committees were effective in only 4, partially effective in 4, and that in 6 companies it was either never appointed or did not meet during a full year. SAI issued several recommendations for audit committees including to better oversee the internal audit function and the effectiveness of internal controls and monitor the financial reporting process.

**236. Only 50 per cent of the audit committees made recommendation on the selection of the external auditor and only one met with the external auditor.** The oversight of the external audit function and the selection of the external auditor is one of the main objectives of an audit committee. This is linked with the selection of the external auditor through a public procurement process for SOE, in which audit committees seem to have little influence.

<sup>283</sup> The adverse opinion pertains to the audit of the 2022 financial statements of the Post Office of Montenegro, for which one third of the balance sheet's assets is formed by land and buildings for which it is not possible for the auditors to ascertain the ownership.

**237. External auditors are selected through a public procurement procedure performed at the SOE level.** All SOEs need to abide by public procurement rules and processes, which limits the role of the audit committees in selecting and recommending an auditor although they should (i) oversee the tender process, (ii) be consulted on the auditor's capacity to perform the audit of the SOE, (iii) and advise if the fee allocated by the public procurement process is sufficient for the auditor to perform the audit. Having obtained AGM agreement, the board of directors propose the appointment of the external auditor to the MoF for approval. The MoF checks the register of auditors, verifying that the auditor's license is valid, and checks that the quality assurance process did not detect any major shortcoming.

## 6. The Accountancy Profession

**238. There are no specific requirements of the preparer of financial statements.** The Law on Accounting states only that persons responsible for keeping the books of account and the preparation of financial statements must not have been convicted of a crime.<sup>284</sup>

**239. Several accountancy titles are used in Montenegro but only two are regulated by law.** Titles include bookkeeper, accounting technician, authorized accountant, certified accountant,<sup>285</sup> and certified auditor.<sup>286</sup> Only the last two are defined in law and regulated at the state level by the MoF as described in next paragraphs. Additionally, certain regulatory functions are delegated to the ICAM pursuant to the Government Decree.<sup>287</sup>

**240. The Law on Accounting specifies the criteria for acquiring the title of certified accountant and establishes requirements for IPD and CPD.** A

certified accountant is defined as a person who is certified by an authorized professional organization of accountants (PAO) in accordance with the Montenegrin Accounting Educational Standard (CORS-1).<sup>288</sup> Criteria for obtaining a professional title of certified accountant include the following:<sup>289</sup> (i) university degree; (ii) three years of practical experience in accounting; (iii) passed examinations for acquiring the title certified accountant administered by the ICAM (nine exams for the authorized accountant title with an additional five exams for certified accountant, focusing on audit and assurance, performance and strategic financial management, complex financial reporting, and ethics); and (iv) proof of not being convicted of a crime rendering the person unfit to perform accountancy tasks. The Law on Accounting also prescribes that individuals with foreign qualifications are eligible to acquire the title of certified accountant if their qualification is obtained from a member of IFAC and provided the certification and training process is equivalent to those of authorized PAOs in Montenegro.

**241. The Law on Accounting authorizes the MoF to oversee the certification of certified accountants, this responsibility was delegated to the ICAM in accordance with the law and the Government Decree.** According to the Government Decree,<sup>290</sup> the ICAM is authorized to: (i) determine certification programs in accordance with International Educational Standards (IES) and publish them in the official magazine; (ii) organize and conduct certified accountant examinations for and issuing relevant certificate; (iii) ensure that procedure for obtaining the title of certified accountant is compliant with the Law on Accounting; (iv) monitor the quality of educational programs annually in order to evaluate their compliance with IFAC requirements; (v) maintain a register of certified accountants; and (vi) conduct educational activities in accordance with IESs at IPD and CPD levels.

<sup>284</sup> Article 21 of the Law on Accounting

<sup>285</sup> Article 24 of the Law on Accounting

<sup>286</sup> Article 10 of the Law on Auditing

<sup>287</sup> <https://www.isrcg.org/uredbe>

<sup>288</sup> [https://assets-global.website-files.com/6458e788814cab18be394a81/6537cbfb0c7448924b06f2d8\\_1.%20Crnogorski%20obrazovni%20racunovodstveni%20standard%20CORS-1.pdf](https://assets-global.website-files.com/6458e788814cab18be394a81/6537cbfb0c7448924b06f2d8_1.%20Crnogorski%20obrazovni%20racunovodstveni%20standard%20CORS-1.pdf)

<sup>289</sup> Article 24 of the Law on Accounting

<sup>290</sup> Article 1 of the Government Decree on Entrusting of Affairs of the Public Administration Bodies competent for Accounting and Audit

**242. Certified auditors are regulated by the Law on Auditing, which outlines the procedures for licensing, registration, IPD, and CPD.**<sup>291</sup> Certified auditors are required to satisfy the following criteria: (i) be a certified accountant; (ii) complete practical experience in auditing for a minimum of three years, of which at least two years are under the supervision of a certified auditor; and (iii) provide proof that they do not have criminal record. The law requires auditors to take part in CPD to maintain their theoretical knowledge, professional skills, and values at a sufficiently high level,<sup>292</sup> carried out in line with the program established by the MoF in agreement with the Council of Audit, and implemented by the MoF or a legal entity entrusted with performance of this task. In accordance with the Government Decree, tasks relating to the training of certified accountants and auditors at IPD and CPD level are delegated to the ICAM.

**243. Legal provisions relating to prerequisites for the approval and further activity of statutory auditors are largely compliant with EU legislation.** There are, however, some areas that need further alignment, in particular related to: a) adding requirements regarding assurance of sustainability reporting; b) granting an audit license to audit firms of good repute; c) clarifying requirements for the examination of professional competence and testing of theoretical knowledge to ensure the list of subjects tested is fully compliant with Article 8 of the Directive, and requiring that at least part of examination is in written form; d) adding provisions regarding assessment of threats to independence; and e) adding provisions relating to internal organization of statutory auditors and audit firms.

**244. The MoF is authorized to regulate audit activity.** It is responsible for (i) issuing/revoking auditor licenses; (ii) maintaining the registry of Certified Auditors;<sup>293</sup> (iii) validating auditor licenses for candidates from the EU;<sup>294</sup> (iv) ensuring

implementation of IPD and CPD requirements;<sup>295</sup> (v) conducting quality assurance reviews; and (vi) maintaining an I&D system.<sup>296</sup>

**245. The titles of bookkeeper and authorized accountant are not regulated by law but are defined by the Montenegrin Educational Accounting Standard,<sup>297</sup> which was developed pursuant to the Law on Accounting and the Government Decree.** A bookkeeper is a qualified person with some knowledge, experience, and competence in accounting and compiling financial statements. To acquire the title of bookkeeper a candidate needs to meet the following criteria: (i) high-school education; (ii) at least three years of practical work in accounting; and (iii) passed the PAO examination for bookkeeper. The authorized accountant is a qualified person who has the appropriate level of knowledge and experience for accounting, compiling financial statements, internal audit, external audit tasks, and other related services. To acquire the title of authorized accountant the candidate should meet the following criteria: (i) have a university degree; (ii) at least three years of practical experience in accounting or financial reporting; and (iii) passed examination for authorized accountant.

**246. As of October 2023, accounting practitioners that were members of PAOs in Montenegro included 111 individual auditors, 28 audit firms, 219 certified accountants, 789 authorized accountants, 229 accounting technicians, and 78 bookkeepers.**<sup>298</sup> There is no legal requirement for accountancy practitioners to be a member of a PAO, therefore statistics on professional accountants is given only relating to PAO members.

**247. CPD is required of members of the ICAM.** Certified auditors and certified accountants are required to maintain their qualification in line with the Law on Auditing,<sup>299</sup> however other members of the ICAM follow the same requirements in line with the Rulebook on CPD and the PAO Statute. The Rulebook

<sup>291</sup> Article 10 of the Law on Audit

<sup>292</sup> Article 12 of the Law on Audit

<sup>293</sup> Article 10 of the Law on Auditing

<sup>294</sup> Article 11 of the Law on Auditing

<sup>295</sup> Articles 10 and 12 of the Law on Auditing

<sup>296</sup> Articles 42-52 of the Law on Auditing

<sup>297</sup> The national accounting education standard, which regulates vocational training and acquiring of titles in accounting.

<sup>298</sup> Information on bookkeepers and authorized accountants is obtained from relevant registries published on the websites of both PAOs (the ICAM and the IAAM).

<sup>299</sup> Article 12 of the Law on Auditing



on CPD establishes a minimum of 40 hours CPD per year should be recorded by holders of the accountant titles to maintain their licenses. PAO members who do not obtain minimum of 120 hours during the period of three consecutive years are obliged to pass a special exam, which consists of four modules, covering the code of ethics, accounting and audit, taxation, and knowledge of IAS/IFRS/ISA depending on the candidate's title in accountancy. The Rulebook on CPD allows for 20 hours (50 percent) of annual CPD to be obtained via self-education (for example subscription to professional periodic literature, publishing and lecturing on accounting and audit related topics), while the other 20 hours (50 percent) must be obtained by attending organized training, conferences, round tables, and other events recognized by the PAO for the purpose of CPD. A list of PAO members with valid licenses is published on the website of the ICAM as well as in the journal at the end of each year, as well as submitted to employers and the MoF.

### Professional Accountancy Organizations

**248. The only full IFAC member PAO in Montenegro is the ICAM.** The ICAM was established in 2006 as a professional association of accountants and auditors. It is acknowledged by the Government Decree as the competent authority for accounting and auditing activities referred to in the Law on Accounting and the Law on Auditing. The ICAM is entrusted with regulatory tasks including: (i) translating and publishing of international accounting and auditing standards as well the International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants; (ii) certifying and maintaining the registry of certified accountants; (iii) preparation of sample

financial statements; and (iv) IPD and CPD training for professional accountants. The ICAM is a full member of IFAC since 2017 and a member of Accountancy Europe. As of the date of this assessment, there were 752 members, including 78 bookkeepers, 455 authorized accountants and 219 certified accountants. All accountants are full members of the Institute. Members are expected to meet the requirements on higher education and minimum period of relevant work experience (accounting, financial reporting, economics, etc.).

**249. Another PAO, the Institute of Accountants and Auditors of Montenegro (IAAM), established in 2002, is an associate member of IFAC.** Membership of the IAAM is voluntary. The PAO offers a two-tiered vocational certification scheme for levels of accounting technician and authorized accountant. It offers IPD and CPD trainings to these two categories of accountants, organized in line with the National Education Standard and the Rulebook on CPD for IAAM members. The IAAM does not have the same level of professional recognition by the MoF as the ICAM. Its activities are carried out according to a license from the Ministry of Education, Science, and Innovation (MoESI) for adults' education. As of the date of this assessment, the IAAM had 563 full members, 334 authorized accountants and 229 accounting technicians.

### International Education Standards

**250. Educational requirements for certified auditors are set by the Law on Auditing and requirements for certified accountants are set by the Law on Accounting.** The Law on Accounting<sup>300</sup> specifies IFAC

**Table 17.** ICAM Membership as of October 2023

Member Category	Female	Male	Total
Certified accountants	146	73	219
Authorized accountants	354	101	455
Bookkeepers	74	4	78
<b>Total</b>	<b>574</b>	<b>178</b>	<b>752</b>

Source: ICAM

<sup>300</sup> The Law on Accounting, Article 24



education standards as a benchmark for the education program and examination of certified accountants. The MoF is responsible for certifying auditors while responsibilities relating to education and certification of accountants are delegated to the ICAM.

**251. IPD and CPD requirements for bookkeepers, authorized accountant, certified accountants, and certified auditors are established in the Montenegrin National Accounting Educational Standard (CORS-1).** The standard is based on IESs and is issued by the ICAM as an entity entrusted to be responsible for professional accounting education in line with the Government Decree.

**252. IFAC's latest assessment, carried out in 2022, indicated "partial compliance" with the IESs<sup>301</sup> at the level of jurisdiction.** According to IFAC, the ICAM's program incorporates most of the IES requirements related to IPD, however a structured review and update to the education program and the teaching resources of the ICAM is recommended. Specifically, greater alignment in areas such as governance, risk and ethics, and advanced financial and performance management would be beneficial. Practical experience requirements, as well as the enforcement of the requirements, also need to be further aligned with those of the IES. The ICAM reviews its education programs, relevant literature, and exams on a yearly basis. The most recent review was conducted in 2023. The IAAM conducted an IES self-assessment in 2022, to identify and address gaps in compliance with the education standards. Based on the results of self-assessment the IAAM's education program was updated in 2023 to address changes in the IESs, including strengthened ICT skills and professional skepticism. Subsequent improvements were noted by the ROSC assessment team, including enactment of the CPD Rulebook in 2022 and improvements in the education programs of both PAOs.

**253. According to the Law on Accounting, the MoF or the ICAM establishes the certification program, including examination process, to obtain the title of certified accountant.<sup>302</sup>** The certification program should be aligned with the law and national education standard, both referring to IESs. The CPD program for

statutory auditors should be approved by the MoF in coordination with the Council of Audit.<sup>303</sup> For this purpose, the ICAM submits an annual CPD program to the MoF together with a report on activities conducted during the preceding year.

**254. Alignment between ICAM certification and university curricula is not sufficient.** Despite close cooperation between the ICAM and the Faculty of Economics of the University of Montenegro, several significant accounting education subjects, like ethics, financial management and risk management have low or no coverage in the university programs. Detailed information on accounting education in universities is provided in section B.7. of this assessment.

**255. The ICAM professional qualification has been in operation for 16 years and compares well to IES.** It is available in Montenegrin and is aligned with the ACCA curriculum. The program consists of three levels of qualification, which lead to bookkeeper, authorized accountant, and certified accountant respectively, with relevant sets of examinations, specific for each level of qualification. There are a maximum of 14 examinations and they must all be passed to achieve the title of certified accountant. The curriculum was developed by the ICAM with external support<sup>304</sup> as part of a pilot project aimed at strengthening professional education in Montenegro.

**256. The ICAM has high success rates in its final exams.** From 2020 to 2023, 23 candidates enrolled in the final examination for certified accountant, comprising 12 women and 11 men. In this period, the average success rate was 62 percent.

**257. The ICAM cooperates with the Economic Faculty of the University of Montenegro to align their curricula and offer exemptions to university students, where appropriate, for subject papers in its qualification.** Graduates of the Economic Faculty (and some other higher education institutions) may be exempted from up to the first three exams of the professional qualification. The exemptions are provided in line with the notification of criteria for exemption, issued by the ICAM. According to the Notification, the maximum number of exemptions

<sup>301</sup> <https://www.ifac.org/about-ifac/membership/profile/montenegro>

<sup>302</sup> The Law on Accounting, Article 24

<sup>303</sup> The Law on Auditing, Article 12

<sup>304</sup> AARC, Deloitte, and the Association of Chartered Certified Accountants (ACCA)

is five, depending on the candidate's education, the institution they graduated from, and compatibility of the curriculum of this institution with the ICAM program (this should be no less than 80 percent). Currently the exemptions are given on an individual basis as approved by the ICAM Education Committee.

**258. The IAAM uses the examination system for vocational education administered by the MoESI.** The examination framework is developed and approved by the National Council for Education at the request of the Center for Vocational Education and is mandatory for all licensed education providers. The IAAM is responsible for designing the content as per the approved examination framework (up to 10 percent of the program is allowed to be changed) and in line with relevant standards of the profession and needs of the local community. Training materials used by the IAAM are based on the Examination Catalog for Professional Qualification and are reviewed annually.

## Code of Ethics for Professional Accountants

**259. Certified accountants and certified auditors must adhere to the Code of Ethics issued by the IESBA.** The Law on Accounting and the Law on Auditing require certified accountants and certified auditors, the two designations specified in law, to adhere to the Code of Ethics as issued by the IESBA, as adopted and published by the designated competent authority. The MoF has delegated this task to the ICAM. The ICAM has a formal agreement with the SAAA and the AAARS to use a common translation of the IESBA Code. The SAAA has translated the 2018 version of the Code, which the ICAM states as the current baseline. At the time of this assessment, translation of the 2022 version was complete and was planned to be available in 2024.

**260. Authorized accountants, accounting technicians, or bookkeepers who are PAO members are also obliged to adhere to the Code of Ethics as per the statutes of the PAOs.** The law does not prescribe mandatory use of the IESBA Code of Ethics for all accounting practitioners; therefore, it is not

possible to confirm or monitor adherence to the Code by those who are not PAO members.

**261. The MoF Division for Public Oversight is responsible for enforcement of auditors' compliance with the IESBA Code of Ethics.**<sup>305</sup> Audit inspections assess compliance, and any potential non-compliance is addressed by the investigation and discipline function of the Audit Council. Information on cases of I&D proceedings regarding compliance with the Code of Ethics was not available to the ROSC Team during the assessment.

**262. The ICAM requires all its members to comply with the IESBA Code of Ethics.** To promote awareness of the Code's provisions, the ICAM supports the following activities: (i) developing and disseminating guidance on the Code; (ii) building awareness of the adopted standards through annual events and the distribution of publications; (iii) enhancing awareness of recent updates and modifications to the Code; (iv) including the Code in its education and examination programs; and (v) incorporating the Code, including recent updates and modifications into IPD and CPD activities. The ICAM has established an Ethical Committee as a permanent body to monitor its members' compliance with the Code. The Committee has five members elected by the Assembly of the ICAM for a term of four years. The Committee is authorized to initiate disciplinary proceedings against members within 30 days of receipt of a relevant request. Committee decisions may be appealed to the board of directors of the ICAM, whose decision is final for the Institute, and may be further escalated to the competent court. Penalties for proven misconduct may include (i) internal warning, (ii) public warning, (iii) temporary suspension from ICAM membership for a period of 1-3 years; and (iv) exclusion of membership and cancellation of accountant/auditor certification. In the three years preceding this assessment, six cases of violations of compliance with the Code of Ethics were investigated by the ICAM Ethical Committee.

**263. The IAAM requires its members to comply with the IESBA Code of Ethics.** Currently a printed edition of the 2016 version of the Code of Ethics has

<sup>305</sup> Article 44 of the Law on Auditing

been distributed among the PAO members. The IAAM communicates the most important principles and guidelines of the Code, which are mandatory for compliance, to its members via mailing and organizing webinars and training. It is prepared in theory to react to potential misuse or violation of the Code of Ethics by its members based on complaint, however the enforcement mechanism has not been operational since its establishment and has not yet considered any case of potential misconduct.

## Investigation and Discipline System

**264. The Law on Auditing establishes certain I&D provisions for certified auditors.** The law outlines the requirements for conducting audit as well as applicable sanctions for any misconduct. The following measures may be applied by the MoF, or a responsible body with its delegated authority, to an audit firm or statutory auditor: (i) recommendation to eliminate identified deficiencies; (ii) application of additional measures aimed at elimination of identified deficiency (for instance, strengthening internal control system, improving compliance with education requirements of the Code of Ethics); (iii) temporary ban for the audit firm or the statutory auditor; (iv) license withdrawal.<sup>306</sup> Information on recent cases of I&D proceedings was not available to the ROSC Team.

**265. I&D measures relating to other categories of accountancy practitioners, who are PAO members, are within the competence of the PAOs.** The ICAM reports that it operates an I&D system<sup>307</sup> for its members, which is defined by the Rulebook on the Investigation Committee. The ICAM's I&D system comprises three tiers (investigation, discipline, and appeals) and provides the ICAM with the power to enforce sanctions. The ICAM sanctions begin with a formal reprimand, then escalate through freezing of membership status to, in extreme cases, revocation

of certification. The ICAM submits an annual report on I&D to the MoF and the ICAM Assembly. The Law on Accounting stipulates that a duly authorized entity (the ICAM, in line with the Government Decree) can impose sanctions against individuals that violate any provisions of the Law. There were six cases investigated, from 2020 to 2023. One resulted in a disciplinary measure (internal warning); two others are ongoing.

**266. The IAAM maintains a complaint-based system of I&D which is maintained and overseen by the Investigation Committee, Discipline Committee, and Appeals Committee.** Upon receipt of a complaint, the Investigation Committee assembles a three-person panel which is independent of both the situation and the individual(s) in question. The Investigation Committee receives the complaint, analyses it, determines the complexity of the complaint, and requests additional information from the member. If the Investigation Committee finds that there is a case to pursue it is referred to the Discipline Committee. The ROSC team was informed that there have been no cases in recent years, which means that the system is essentially non-operational.

**267. Accounting practitioners who are neither certified accountants, certified auditors, nor PAO members are not subject to any I&D proceedings.** Nor, in line with the legislation in force, are they liable for any professional misconduct in the area of accounting or financial reporting.

## Performance Indicators – Accountancy Profession

**268. The overall rating attributed to Montenegro under the performance indicator “Accountancy Profession” is Partially Adopted.**

<sup>306</sup> Article 49 of the Law on Auditing

<sup>307</sup> [https://drive.google.com/file/d/1rudwTU9dKv8\\_WVCtG4CtOzpkom\\_2tokq/view](https://drive.google.com/file/d/1rudwTU9dKv8_WVCtG4CtOzpkom_2tokq/view)

**Table 18.** Performance Indicators – Accountancy Profession

International Education Standards		
Montenegro Rating	<b>Partially Adopted</b>	<p>Compliance with the IESs is required by the Law on Accounting and by the National Education Standard, approved by the ICAM as a legal entity authorized to fulfil the accounting education task at a national level.</p> <p>The ICAM's program is based on the ACCA program, is aligned with the latest version of the IESs, and is updated annually.</p> <p>The IAAM have developed an action plan to address gaps in compliance with IES in line with IFAC recommendations.</p> <p>Consistency of programs between university and PAO is very limited, with some key subjects, including ethics and risk management lacking in the basic education program.</p>
Rating Criteria	Adopted	The requirements of the IES in their entirety in effect as of the time of the assessment have been adopted for all aspiring professional accountants and professional accountants as defined in the jurisdiction.
	Partially Adopted	<p>Requirements from an earlier version of IES have been adopted.</p> <p>or</p> <p>Some of the requirements of the IES in their entirety in effect as of the time of the assessment have been adopted for professional accountants.</p> <p>or</p> <p>The requirements of the IES in their entirety in effect as of the time of the assessment have been adopted for a segment of the profession.</p>
	Not Adopted	The requirements of the IES have not been adopted.
Code of Ethics for Professional Accountants		
Montenegro Rating	<b>Partially Adopted</b>	<p>The legislation requires certified accountants and certified auditors, the two designations identified by the law, to adhere to the Code of Ethics as issued by IESBA, being adopted, and published by the designated competent authority — the MoF, who delegated this task to the ICAM.</p> <p>The latest version of the Code is not yet adopted. Translation of the Code is available as of 2018 (ICAM members) and as of 2016 (IAAM members). Translation as of 2022 is expected to be available to the ICAM members by early 2024.</p> <p>Authorized accountants, accounting technicians, and bookkeepers, who are members of one of the two PAOs are obliged to follow the Code as per the statutes of these organizations.</p> <p>Other categories of accounting practitioners operating in the country are not legally required to follow the Code of Ethics.</p>

Code of Ethics for Professional Accountants		
Rating Criteria	Adopted	The Code of Ethics for Professional Accountants in effect as of the time of the assessment has been adopted for all professional accountants.
	Partially Adopted	<p>An earlier (2009 or later) version of the Code of Ethics for Professional Accountants has been adopted for all professional accountants.</p> <p><i>or</i></p> <p>Some requirements of the Code of Ethics for Professional Accountants in effect as of the time of the assessment have been adopted.</p> <p><i>or</i></p> <p>The Code of Ethics for Professional Accountants has been adopted for a segment of the profession.</p>
	Not Adopted	<p>The Code of Ethics for Professional Accountants has not been adopted.</p> <p><i>or</i></p> <p>A pre-2009 version of the Code of Ethics for Professional Accountants has been adopted.</p>
Investigation and Discipline System		
Montenegro Rating	<b>Partially Adopted</b>	<p>An I&amp;D system is established at the level of the MoF and the ICAM. It covers only two segments of the profession, certified auditors and certified accountants.</p> <p>The IAAM has certain elements of an I&amp;D system however it doesn't seem to be active.</p> <p>Accountants who are not certified auditors or certified accountants, and are not members of either PAO, are not subject to any I&amp;D system.</p>
Rating Criteria	Adopted	An I&D system, incorporating all of the requirements of Statement of Membership Obligations (SMO) 6, has been established and is operational for all professional accountants.
	Partially Adopted	<p>An I&amp;D system, incorporating all of the requirements of SMO 6, has been adopted and is operational for a segment of the profession.</p> <p><i>or</i></p> <p>An I&amp;D system for all professional accountants has been established and is operational but only incorporates some of the requirements of SMO 6.</p> <p><i>or</i></p> <p>An I&amp;D system, incorporating all of the requirements of SMO 6, has been established but is not yet operational.</p>
	Not Adopted	I&D system is not established.

## 7. Professional Education And Training

**269. Professional accounting education in Montenegro is defined in law and regulation.** This includes the Law on Accounting,<sup>308</sup> Law on Auditing,<sup>309</sup> the Government Decree on Entrusting of Affairs of the Public Administration Bodies competent for Accounting and Audit, and by the ICAM's regulations, including the National Accounting Education Standard<sup>310</sup> (CORS – 1), the Rulebook on CPD of members of ICAM, Notification on Criteria for Exemption from Taking the Exam, and some others. To become a certified accountant an applicant should complete the certification program developed in line with the IESs and pass the examination established by the MoF or legal entity entrusted with the performance of those tasks. To become a certified auditor the applicant must already be a certified accountant, therefore auditors follow the same education program as certified accountants at the IPD level.

**270. The National Accounting Education Standard<sup>311</sup> provides a detailed outline of the requirements for accounting education and becoming professionally certified.** The Standard, issued in line with the Government Decree and IESs, determines the training disciplines for professional certification and CPD, establishes possible exemptions from exams, and sets out the documentation to be submitted for professional certification and the procedure for issuing the certificate. According to the Standard, professional certification of a candidate and the issuance of a certificate confirming the status of a professional accountant is carried out by the ICAM. The Standard defines three professional titles, which are: (i) bookkeeper; (ii) authorized accountant; and (iii) certified accountant. The Standard determines the conditions for applying for each type of professional title and provides a list of examinations as well as any

exemptions available depending on the applicant's prior qualification. Bookkeeper certification requires the applicant to have completed high school and passed nine exams set by the ICAM. Authorized accountant requires a university/professional/college degree and passed the nine ICAM exams. Certified accountant requires a university degree, passed the nine exams for authorized accountant, and an additional five high level exams on audit and assurance, performance and strategic financial management, complex financial reporting, etc. Prior work experience in the field of accounting of 3-5 years (depending on the qualification) is a precondition for all three professional accounting titles.

**271. The conditions for certification as an auditor are prescribed by the Law on Auditing.<sup>312</sup>** These set out that the audit license may be granted to a person, who: (i) has the title of certified accountant; (ii) has three years of work experience in audit; and (iii) has not been convicted of a criminal offense. No examination is required by the legislation for an auditor license, which is issued by the MOF for an indefinite period.

**272. The ICAM Rulebook on CPD,<sup>313</sup> enacted in 2010 and in line with the Government Decree,<sup>314</sup> sets the requirements and defines the CPD program to maintain certified accountant status.** The Rulebook on CPD obliges all members to fulfill CPD requirements to maintain their professional license. According to the Rulebook, the CPD may be obtained via self-education and, at least 50 percent, via organized training. 40 CPD points/hours are expected annually, with 120 points/hours required to be completed over a three-year period. Members that fail to complete the CPD must pass a special examination consisting of four modules, including the code of ethics, accounting/audit, taxation and the module on knowledge of IFRS/IAS. If they do not pass the special exam their license is annulled. The ICAM's CPD program is based on the combination (input-

<sup>308</sup> Article 24 of the Law on Accounting

<sup>309</sup> Article 10 of the Law on Auditing

<sup>310</sup> Gazette No 058/07 as of 02.10.2007, no 036/14 as of 22.08.2014. and 011/2023 as of 27.01.2023

<sup>311</sup> [https://assets-global.website-files.com/6458e788814cab18be394a81/6537cbfb0c7448924b06f2d8\\_1.%20Crnogorski%20obrazovni%20racunovodstveni%20standard%20CORS-1.pdf](https://assets-global.website-files.com/6458e788814cab18be394a81/6537cbfb0c7448924b06f2d8_1.%20Crnogorski%20obrazovni%20racunovodstveni%20standard%20CORS-1.pdf)

<sup>312</sup> Article 10 of the Law on Auditing.

<sup>313</sup> <https://docs.google.com/document/d/1Q09yjjXGmrWcgvTSOFdnNvR3UQtvXaM9/edit>.

<sup>314</sup> Article 2 of the Government Decree on Entrusting of Affairs of the Public Administration Bodies competent for Accounting and Audit

<sup>315</sup> Article 12 of the Law on Auditing



and output- based) approach and envisages relevant monitoring and enforcement measures, which are in line with the IES7. The CPD program is approved by the MoF and agreed with the Audit Council.<sup>315</sup> The Rulebook on CPD for IAAM members was enacted in 2022.

**273. The MoF recognize the ICAM for professional accountancy education.** As provided for in the law, the MoF delegate relevant tasks to the ICAM, including developing IPD and CPD education programs, conducting training and examinations, and providing quality assurance for professional accounting education in Montenegro.<sup>316</sup>

**274. Other training providers for accountants include higher education institutions, colleges, and other legal entities, including the IAAM, conducting vocational education in line with licenses issued by the MoESI.** According to the information provided by the MoESI, there are seven providers of adult education licensed to offer accounting programs for the titles of bookkeeper and authorized accountant. In total 730 participants were trained by these training providers in 2022 and 2023, with the majority (604 participants) trained by the IAAM.

**275. The education and examination process is administered by the MoESI and is subject to Accreditation and Quality Assurance procedures.** The Center for Vocational Education conducts and coordinates the process of developing vocational qualifications. The proposed occupation standards and qualification standards are adopted by the National Qualifications Council, while examination catalogs and programs for adult education are approved by the National Education Council, which is responsible for accrediting all educational programs from the vocational education and training field. Licensing for the implementation of educational programs is provided by the MOESI.

**276. No university education programs were recognized by MoF for the purpose of professional accounting education at IPD level.** However, graduates of universities offering education programs with an accounting concentration may apply to PAOs to obtain exemptions for certain examinations as defined by the Montenegrin Accounting Education

Standard<sup>317</sup> and the Notification of Criteria for Exemption from Taking the Exam.

**277. As of the date of this ROSC assessment, four universities in Montenegro offer programs with a focus on accounting.** One is a state university and three are private universities. None has a standalone program with specialization in accountancy. The universities have certain freedom in developing their curricula, however since there is no separate education program for accountants, no relevant model curriculum is developed to be applicable by all universities in the country. Accountancy and audit courses are more commonly taught as a part of other higher education degree programs, such as business administration, economics, and finance. The teaching language of all four universities is Montenegrin.

**278. The Faculty of Economics of the University of Montenegro includes accounting and audit subjects in its programs.** Although this standalone faculty of the state-owned university, based in Podgorica, does not offer the program in accounting it has included accounting and audit subjects in undergraduate and master's programs since 1961. In academic year 2023-24 there are 324 students enrolled in the accounting course at undergraduate level and 46 students enrolled in managerial accounting at master's level. Most accounting-related courses are offered at master's level; however, they cover only basic accounting competence areas and lack alignment in areas such as ethics, audit and assurance, and advanced financial management and risk management. The program is offered in the Montenegrin language. The textbooks and learning materials are also available in the Montenegrin language. Within the previous three years the program had three teaching staff for accounting subjects, two full time and 1 part-time. Faculty graduates benefit from some recognition and exemptions provided by local PAOs.

**279. The University of Donja Gorica, a private university with 12 years of experience, includes accounting-related disciplines in the curricula of the Faculty for International Economics, Finance, and Business.** It does not offer a standalone program for accountants at bachelor's or master's level, however over seven to nine semesters more than

<sup>316</sup> Article 2 of the Government Decree on Entrusting of Affairs of the Public Administration Bodies competent for Accounting and Audit.

<sup>317</sup> Section C of the Standard

10 accounting-related subjects are offered to faculty students. The courses are taught in the Montenegrin and English languages. The textbooks and learning materials are mostly available in Montenegrin with some in the English language. The accountancy curriculum is subject to annual review.

**280. Graduates of Montenegrin Universities can apply to PAOs for exemptions on an individual basis.** None of interviewed universities applied to local, regional or foreign PAOs for accrediting their training programs.

## 8. Audit Regulation, Quality Assurance, and Public Oversight

**281. Audit public oversight as required by the EU acquis is a complex system.** It is a system that covers not only the audit of PIEs but the whole audit profession. The implementation of audit public oversight can be costly and require resources that are not always available in transition countries, and the strict requirements of the EU Audit Regulations can be complicated to implement.

### Overview of Regulation

**282. The Law on Auditing regulates external audit and the audit public oversight system in Montenegro.** The Law on Auditing contains the provisions for the operation of the audit public oversight system. Article 34-45 describes the architecture of the public oversight system and its duties and accountabilities. The regulations on public oversight consist of an act for the appointment of board members and a rulebook on the functioning of the audit oversight board (i.e. the Audit Council).

### Quality Assurance and Audit Oversight System

**283. The MoF is responsible for audit oversight in Montenegro, it has established a two-tier system of Audit Council and Audit Oversight Division.** The

system was established in 2017 and performed progressively its duties until 2021 when it stopped working. It restarted at the beginning of 2023 and continues now. Following the Law on Auditing, the system comprises:

- \* An Audit Council of five members led by a president. A new council was appointed in February 2023 and is responsible for managing the public oversight system. The president of the council is the Director General of the Directorate for Central Harmonization and Development of Internal Controls at the MoF, who oversees inter alia the oversight division. The Audit Council includes very senior academics, but none of the members have extensive experience of external auditing.
- \* The Audit Oversight Division is a unit under the Directorate for Central Harmonization of the MoF. When established in 2017, the unit included several staff members but at the time of this assessment there is only one staff member, the acting head of the unit who also works as a quality assurance inspector.

**284. The Audit Council has an advisory role.** The Audit Council rulebook sets out its tasks, which include to: (i) provide guidance on how to improve audit practice in Montenegro; (ii) monitor that application of audit standards is effective, efficient, and timely, (iii) provide advice to policy makers, regulators, and state bodies, (iv) help improve the quality of financial reporting, (v) publish the transparency reports of audit firms and statutory auditors, (vi) provide an opinion on the annual control of the quality of audit firms, (vii) provide an opinion on the CPD program of auditors, (viii) provide an opinion on training for personnel conducting the quality assurance review of audits, and (ix) provide opinions on drafts laws and regulation that relates to external audit.

**285. The Audit Oversight Division operates the system.** This includes maintaining the registers of audit firms and auditors, ensuring CPD requirements are met, and performing audit inspections.

**286. The audit oversight system is partially aligned with the provisions of the EU Audit Directive 2014/56**

EU,<sup>318</sup> and the EU Audit Regulation.<sup>319</sup> The essential elements of audit oversight are included in the Law on Auditing, including definitions of the roles and responsibilities of the MoF, the Audit Council as advisory body, and the Audit Oversight Division and its quality assurance inspectors. However, important EU provisions remains to be transposed, such as the need for regular monitoring, at least every three years, documenting and reporting to the European authorities the developments in the market for providing statutory audit services to PIEs, including, (a) the risk arising from high incidence of quality deficiencies of a statutory auditor or an audit firm, the disruption in the provision of statutory audit services whether in a specific sector or across sectors, the further accumulation of risk of audit deficiencies and the impact on the overall stability of the financial sector, and the measures to mitigate those risks; (b) the market concentration levels; and (c) the performance of audit committees.

### Quality Assurance Review Procedures, Approach, and Communication of Findings

**287. In practice, the system of public oversight is still reestablishing itself after a period of non-operation and will need to upgrade the available resources and skills.** The Audit Oversight Division currently has only one staff member, the team needs to be expanded to include individuals with practical experience of auditing and preferably professional certification in accountancy. The council should also bring in a broader range of skills and knowledge of audit, preferably including a chartered accountant. While the council president has relevant knowledge on how the system should function, he should be advised by former auditors that have experience in auditing and have not been practicing in the previous three years.

### Quality Assurance Inspectors

**288. At the time of the assessment, the Audit Oversight Division had initiated the monitoring process for audits, but the only quality assurance**

**inspector does not have the experience in accounting and auditing required in the law.** The sole member of the division has prepared an audit plan and started to undertake inspections, beginning with two member firms of international accounting networks; the inspections reports do not display the level of details normally required in PIE audit reviews. A request to hire quality assurance inspection one staff with experience in auditing has been made. Two more positions will be advertised in 2024.

**289. The inspections are compliance oriented rather than fully fledged inspections of the audit firm and audit files.** Inspections review the functioning of the audit firm and make sure that it complies with all its legal obligations. In addition, the inspector/ authorized official responds to 4 questions based on the review of audit files: (i) whether the audit firm fulfills the conditions for performing audit activities as required in the Law on Auditing including governance arrangements, the contracting of professional liability insurance, and CPD of staff; (ii) whether the quantity and quality of resources are sufficient to perform audits, (iii) whether the audits of the files examined are in compliance with ISA; and (iv) whether the auditor remains independent of the auditee.

**290. The inspection reports do not provide enough information to support the conclusions on the adequacy of resources for the audit or how well the audit was performed.** The conclusions to questions (ii) and (iii) above are answered based on the organization of the audit files rather than on their content. For example, they do not include any critical review or information about how materiality is calculated, or how the key audit matters were chosen, and what were the substantive audit procedures. This kind of review requires critical experience that is acquired through proper accounting and auditing training and years of professional experience.

**291. The previous quality assurance division in the MoF reported conducting only six inspections from 2017 to 2020.** The division's last annual report reports only six inspections, three member firms of international networks and three others. This is too few to review the whole system in three years

<sup>318</sup> Directive 2014/56/EU of The European Parliament and The Council of 16 April 2014 amending Directive 2006/43/EU of The European Parliament and The Council of 17 May 2006

<sup>319</sup> Regulation (EU) No 537/2014 of The European Parliament and The Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC

as required by the Law on Auditing. The inspection reports are all published with the names of the inspected audit firms, the findings, and requests for improvements including a deadline. Requested improvements included to the quality of audit documentation and independence.

### Investigations and Sanctions

**292. The system of sanctions is designed for explicit failure to comply with the law, and the MoF can levy fines from €500 to €16,500.** Article 53 of the Law on Auditing provides for sanctions to an audit firm that fails to request and obtain an auditor's license, and to an audited company that fails to appoint an audit committee, fails to submit the audit report and financial statements to the tax authority, or fails to appoint the external auditor. Article 54 deals with violations of independence or rules, non-compliance with compulsory insurance, not communicating changes to the MoF, failure to submit a transparency report, or failure to keep audit documentation. The sanctions are not commensurate with the consequence of a failed audit of a PIE.

**293. There are no additional investigative powers or sanctions foreseen by the Law on Auditing beyond the quality assurance system and sanctions described above.** Investigative resources and discipline beyond the quality control system are not in place. There is no legal nor operational mechanism to investigate audit fraud or other wrongdoings of auditors or auditees revealed by the press or anonymously. The Audit Council does not appear to have any power to investigate such issues.

### Performance Indicators – Audit Public Oversight

**294. The overall rating attributed to Montenegro under the performance indicator "Audit Public Oversight", is 2.9 out of 4, which equals the simple mean of the rating criteria comprising sub-indicators A, B, and C below.**

#### *Sub-indicator A. Audit oversight system*

**295. The attributed rating based on the legal requirements is 3.3, which equals the simple mean of the rating criteria comprising sub-indicators A.1-A.4 below (i.e.,  $3.3 = (3+3+3+4)/4$ ).**

**Table 19.** Sub-indicator A: Audit oversight system

A.1. Membership of the audit oversight authority governing body		
Montenegro Rating	3	The membership of the oversight body comprises only individuals that are independent from the audit of the profession. However, the collective knowledge and experience on auditing is limited and could be enhanced in line with the legal requirements: only the chair has experience in audits of EU projects and one is a member of an audit committee. While this experience is important, other members did not have any external audit experience or exposure. Improving the collective knowledge of the council requires the addition of a member with good knowledge of ISA and audit theory and a member with former significant audit experience who is retired from the profession.
Rating Criteria	1	Criteria for '2' rating not met.
	2	Membership comprises representatives of the profession or the majority (more than 50 percent) are practitioners.
	3	Membership comprises a majority (more than 50 percent) of non-practitioners and a minority of practitioners.
	4	Membership comprises only non-practitioners, who are independent from the profession, according to International Forum of Independent Audit Regulators (IFIAR) Core Principle 2.

### A.2. Scope of the audit oversight system

Montenegro Rating	3	The audit oversight authority oversees the quality assurance system. The law does not confer to the Audit Council or to the Audit Oversight Division any additional investigative or disciplinary powers in addition to the quality assurance system. Such powers would be necessary to address audit failures referred to the MoF. The sanctions are designed for addressing formal infractions of the law that do not need specific investigations.
Rating Criteria	1	Criteria for '2' rating not met.
	2	The audit oversight authority has oversight of: (i) the approval and registration of auditors and audit firms; (ii) the adoption of standards on professional ethics and internal quality control of audit firms and auditors; and (iii) continuing professional education.
	3	In addition to requirements under "2": The audit oversight authority oversees the quality assurance system.
	4	In addition to requirements under "3": The audit oversight authority oversees the investigative and administrative disciplinary systems.

### A.3. Funding of the audit oversight system

Montenegro Rating	3	The current funding covers the Audit Council and the Audit Oversight Division and therefore covers the core oversight activities. As it is the responsibility of the MoF and under its budget, the funding is secure. However, there is no defined budget in addition to the salaries and compensation of Audit Oversight Division staff and compensation to Audit Council members. Should the Audit Council need to hire a lawyer to conduct an investigation or prepare a prosecution; it would have to request additional funding.
Rating Criteria	1	Criteria for '2' rating not met.
	2	Current funding levels are not sufficient to cover the audit oversight authority's core activities.
	3	Current funding levels are sufficient to cover the audit oversight authority's core activities, but concerns exist as to sustainability.
	4	Current funding levels are sufficient to cover the audit oversight authority's core activities and are sustainable. Funding is secured and free from undue influence by auditors.

### A.4. Reporting by audit oversight authority

Montenegro Rating	4	The reporting covers annual work plans, activity reports, and inspections findings. All are published in accordance with the requirements of the Law on Auditing. Legal requirements are in place to prepare and publish annual work plans and outcomes. The oversight system was not functioning in 2022 so there was no activity to report. The activities resumed in 2023 and the respective report was issued.
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A.4. Reporting by audit oversight authority		
Rating Criteria	1	Criteria for '2' rating not met.
	2	There are no legal obligations to publish annual work plans, activity reports, or outcome of inspections at the aggregate level or on a firm-by-firm basis.
	3	Legal requirements are in place to prepare and publish annual work plans and summary reports of annual activities within a specified timeframe.
	4	Annual work plans, activity reports, and the outcome of inspections (at the aggregate level or on a firm-by-firm basis) are published annually in accordance with legal requirements and following IFIAR Core Principle 3.

*Sub-indicator B. Audit quality assurance*

296. The attributed rating based on the legal requirement is 2.5, which equals the simple mean of the rating criteria comprising sub-indicators B.1-B.4 below (i.e.,  $2.5 = (4+2+2+2)/4$ ).

**Table 20.** Sub-indicator B. Audit quality assurance

B.1. Legal mandate for audit quality assurance inspections		
Montenegro Rating	4	The inspections for adherence to quality standards are performed by the MoF that acts in the public interest and is independent from the accountancy profession. Inspections are not delegated.
Rating Criteria	1	Criteria for "2" rating not met.
	2	There is a requirement for the work of auditors to be subject to inspection for adherence to quality standards.
	3	Inspections for adherence to quality standards by auditors are required to be performed by a separate body which acts in the public interest.
	4	Inspections for adherence to quality standards by auditors of PIEs are performed by a body independent from the accountancy profession with the legal mandate and authority to perform this oversight role.



## B.2 Requirements for audit quality assurance inspectors

Montenegro Rating	2	The Law on Auditing requires quality assurance inspectors to have four years of accounting and auditing experience, be independent of the auditors under review and free of conflict of interest and follow specialized training on quality assurance and other relevant areas. None of those are yet implemented in practice. The quality assurance inspector does not have the minimum qualification or experience requirements detailed in the law.
Rating Criteria	1	Criteria for "2" rating not met.
	2	Quality Assurance (QA) inspectors are required to have professional experience in auditing and financial reporting.
	3	QA inspectors are required to be independent of the auditor under review and free of conflict of interest.
	4	Inspectors of auditors of PIEs are required to undertake continuing professional development and specialized training on quality assurance and in other relevant areas based on the nature and complexity of PIEs in the jurisdiction, including industry specialized knowledge.

## B.3 Frequency of audit quality assurance inspections

Montenegro Rating	2	According to the Law on Auditing, the minimum cycle for all inspections of all auditors is three years. The MoF takes into consideration risk-based criteria for the auditors' selection for inspection. The audit review process has not completed a full cycle in the last three years. It is not clear that all auditors of PIEs have been reviewed during the cycle as auditors of PIEs are not identified separately from other auditors.
Rating Criteria	1	Criteria for "2" rating not met.
	2	Auditors are selected for inspection according to a minimum cycle of at least once every 6 years.
	3	The minimum cycle for inspection of auditors of PIEs is at least once every 3 years.
	4	The QA body also takes into consideration risk-based criteria when determining which auditors to select for inspection.

## B.4 Audit quality assurance inspection procedures and findings

Montenegro Rating	2	Inspections are performed according to a defined methodology and include a review of audit files and working papers. The methodology is not detailed enough; it does not include all areas to be reviewed by an audit inspector; and does not refer to the latest quality standards ISQCM1 and ISQCM2. The only inspector/authorized official lacks sufficient experience to effectively review the working papers of a PIE audit. There is no quality assurance system of the audit quality assurance review. Assurance inspection procedures and outcomes of reviews are not subject to internal quality control.
Rating Criteria	1	Criteria for "2" rating not met.
	2	QA inspection procedures are performed according to a defined methodology. Inspection procedures include on-site review of firm-wide procedures for compliance with legal, ethical, and professional standards. QA inspection findings are shared with the auditor in a written report.

B.4 Audit quality assurance inspection procedures and findings		
Rating Criteria	3	<p>In addition to requirements under “2”:</p> <p>QA activities also include on-site inspection of selected audit files and working papers, for compliance with legal, ethical, and professional standards.</p> <p>QA reporting procedures include circulation of a draft inspection report to the auditor for comment and action plans to address the findings prior to issuance of a final report.</p>
	4	<p>In addition to requirements under “3”:</p> <p>QA inspection procedures and outcomes of reviews are also subject to internal quality control within the QA body to promote high quality and consistency in performing inspections.</p> <p>QA reporting procedures includes follow up on the status of remediation of the findings that the auditor has committed to address.</p>

Sub-indicator C. Investigations and sanctions.

**297. The attributable rating based on the legal requirements and the practice is 3.**

**Table 21.** Sub-indicator C. Investigations and sanctions

C.1. Audit quality investigations and sanctions		
Montenegro Rating	3	<p>Investigation systems target non-compliance as a result of inspection findings, but sanctions are not commensurate with the severity of non-compliance. There is no legal requirements for investigation in addition to the system of quality insurance inspections, so there is no mechanism to receive information anonymously foreseen in the law. Additionally, There is no budget for an investigation system that would allow the public oversight to investigate an audit outside the quality assurance cycle or to hire investigators or experts to perform the investigations.</p>
Rating Criteria	1	Criteria for “2” rating not met.
	2	Some investigations <b>and</b> sanctions exist but these are not effective and rarely applied in practice.
	3	Investigation systems target non-compliance, but sanctions are not commensurate with the severity of non-compliance.
	4	<p>Effective systems of investigation and sanctioning are in place and sanctions are commensurate with the severity of non-compliance.</p> <p>Mechanisms to receive information anonymously (including from the public) regarding non-compliant actions taken by auditors of PIEs are in place. Such information can trigger an investigation.</p>

## 9. Setting Accounting and Auditing Standards

### Financial Reporting Standards

**298. The Law on Accounting provides that the MoF is the public body responsible for the adoption, translation, and publication of IFRS Accounting Standards.** The Law also foresees the possible delegation of adoption, translation, and publication of IFRS Accounting Standards to another body. All legal entities that engage in economic activities that are commercial enterprises shall apply IFRS for the preparation of their financial statements. IFRS are defined as the standards issued by the IASB, adopted in Montenegro, and published in the official gazette.

**299. The MoF has delegated the task of adoption, translation, and publication of IFRS Accounting Standards to the ICAM.** According to the Law on Accounting,<sup>320</sup> and the Government Decree<sup>321</sup> on Entrusting the Tasks of the State Administration Authority Competent for Accounting and Auditing, the ICAM is the body responsible for adoption, translation, and publication of accounting and financial reporting standards.

**300. The latest version of IFRS Accounting Standards published by ICAM is dated 2018.** Translation of the standards in Montenegro is based on the version translated by the SAAA; through a consortium agreement which gives the rights of the translation to ICAM. The standards are published on the website of the Serbian Ministry of Finance. ICAM have additionally acquired the rights from the IFRS Foundation to translate IFRS 9 and IFRS 15, published separately in 2023. The translation of IFRS 17 is planned but not yet completed as it will not be applied before 2026.

**301. The temporary gap that exists between the full IFRS Accounting Standards as published by the IASB and IFRS(M) as applied for non-banks in Montenegro will progressively disappear between 2024 and 2026.** Banks are the only enterprises that are mandated to

use full IFRS as published by the IASB, and as a result their auditors are the only ones that refer to the IFRS Accounting Standards in their audit opinion. Listed companies that are not banks are using full IFRS, less IFRS 9 – Financial Instruments and IFRS 15 – Revenue, which will only become applicable in 2024. There is a list of 17 minor amendments to existing standards that are not yet translated. IFRS 17 and IFRS 9 will not be implemented for insurance companies before January 1, 2026. Early application of IFRS 17 and IFRS 9 is possible for all companies except for insurance companies.

### Auditing Standards

**302. The Law on Auditing defines the auditing standards to be the ISA as issued by the IAASB, translated, adopted, and published in Montenegro by the MoF or delegated body.** The MoF entrusts this to the ICAM. Audits are carried out in accordance with ISA and endorsed by the ICAM.

**303. At the time of writing this report, the latest version of the ISA available to auditors in Montenegro were published in the 2016-2017 ISA Handbook.** The Handbook is translated in cooperation with the SAAA.

**304. Translation of the 2021 ISA Handbook is being completed and will be published in 2024.** Several standards will be included since the last translation (see paragraphs 62-63 above).

## C. Observed Financial Reporting Practices and Perceptions

**305. The ROSC A&A process included reviews of financial statements, external auditor reports on those financial statements, and stakeholder perception surveys.** The objectives of this section are

<sup>320</sup> The Law on Accounting, Article 5

<sup>321</sup> Government Decree on Entrusting the Tasks of the State Administration Authority Competent for Accounting and Auditing, Article 2

to: (a) corroborate the findings from the assessments of accounting and auditing standards (Section II.A) and the institutional framework for corporate financial reporting (Section II.B) with reference to financial statements issued; and (b) gather perceptions on the demand for and quality of financial information from users of financial statements. This section is largely based on compliance reviews of financial statements performed as part of this ROSC A&A and the findings of perception surveys completed by users of financial statements and auditors.

## Perceptions

**306. Some stakeholders recognized progress in Montenegro corporate financial reporting in recent years.** However, all stakeholders acknowledge much room remains for improvement in significant areas. Stakeholders' views are mixed regarding whether there are recent improvements in the quality of domestic corporate financial reporting—auditors generally perceive improvement while some other stakeholders do not. Stakeholder groups consulted included lenders, entrepreneurs, audit firms, and academia. In addition to the discussion groups, perception surveys were conducted with auditors<sup>322</sup> and users.<sup>323</sup>

**307. The quality of financial statements is generally perceived to be satisfactory to moderately satisfactory across all sectors for PIEs and unsatisfactory for SMEs across all sectors.** Quality concerns result in lesser reliance being placed on the corporate financial reporting of SMEs.

**308. Stakeholders' views are mixed regarding ranking financial statement quality by sector.** However, there are stakeholder consensus views that:

- \* confidence is higher in the monitoring and compliance function performed by the banking regulator; and
- \* financial reporting quality of SMEs is significantly poorer than large companies.

**309. During group discussions and other interviews, stakeholders recommended authorized bodies strengthen the monitoring and enforcement of accounting and auditing by entities.** The government authorized bodies should raise awareness among chief executive officers and business owners about the importance of financial reporting disciplines as well as the usefulness of financial statements in the resource allocation decision making process. Capacity building should be provided to the preparers, auditors, and regulators of IFRS Accounting Standards and IFRS(M) financial statements, to enable them to better prepare, audit, and compliance review financial statements.

## Observed Practices

**310. The observed financial reporting practices confirmed the Montenegrin stakeholders' perception that gaps exist between the applicable legislative requirements and practice.** The banking sector financial statements reviewed generally appear to be better presented than those of the other sectors reviewed. Significant non-compliance was identified with all financial reporting frameworks – that is for PIEs (banks, insurance companies, and other listed companies) and large companies and SMEs— used as the basis for preparing the financial statements reviewed. The compliance gap is an indication that further capacity strengthening is needed for institutions responsible for audit oversight and for enforcement of financial reporting practices.

## Financial Statements Review

**311. Limited desk-top reviews of a sample of 2022 annual financial statements were performed to assess the compliance gap and the quality of financial information available in the market.** The ROSC A&A team's reviews sought to assess the extent to which the financial statements complied with the financial reporting framework they purported to be prepared in compliance with—IFRS Accounting

<sup>322</sup> Two representatives from each tier of audit companies were surveyed.

<sup>323</sup> Users included representatives of business/investment associations, bank/employment unions, and chambers of commerce as well as chief finance, chief accountants and credit officers of commercial banks.

Standards or IFRS(M). Conclusions should be treated with a degree of caution given the limited sample size, limitations of machine translation (regarding the sample of ten PIE financial statements reviewed), and inherent problems in examining the compliance gap—the reviewer of financial statements cannot be certain that everything that should have been disclosed has indeed been disclosed. Furthermore, financial statements of entities in similar economic sectors could reasonably be expected to have similar formats and disclosures and therefore it is relatively easy for those preparing financial statements to make them appear to comply simply by conforming to a typical format without regard to the entity's underlying financial transactions and position.

**312. During the review of the financial statements, audit reports are also assessed for anecdotal evidence on the extent to which they comply, in practice, with applicable auditing standards.** The same limitations apply in analyzing a relatively small sample of audit reports,<sup>324</sup> and the review comprises only an analysis of the extent to which reports prepared are in compliance with ISA 700<sup>325</sup> and ISA 701<sup>326</sup> and general perceptions drawn from the financial statements themselves.

**313. The reviews suggest improvement is needed in the application of accounting standards.** For the reason outlined above, this report provides only anecdotal evidence, most of which strongly indicates that the quality of financial reporting in Montenegro is in need of much improvement.

**314. A total of 55 sets of annual financial statements were reviewed — 15 sets prepared by PIEs and 40 sets prepared by SMEs.** The selection of PIE financial statements was first stratified on the basis of the sector's importance to the national economy and the types of entities. The sample entities comprised:

- \* three banks;
- \* two insurance companies;
- \* four SOEs; and

- \* one other entity.

Eight of the sample entities took the form of JSC.

To extend coverage of large non listed PIEs, a further five sets of financial statements in that category were selected on the basis of entity size.

**315. The selection of 40 non-PIEs financial statements was stratified on the basis of entity size. The sample entities comprised:**

- \* 10 medium-sized companies;
- \* 10 small companies; and
- \* 20 micro entities.

**316. Different financial reporting frameworks were used in the preparation of the financial statements reviewed. In particular:**

- \* The sample of financial statements prepared by banks all purport compliance with IFRS Accounting Standards as issued by the IASB.
- \* All other sets of financial statements in the PIE sample purport compliance with IFRS(M).<sup>327</sup>
- \* The preparer of one set of PIE financial statements early adopted both IFRS 9 and IFRS 15, which in Montenegro are mandated from January 1, 2024, resulting in the basis of preparation used for that company's 2022 financial statements being much closer to the IFRS Accounting Standards as applied by the banks.

## Review of PIE Financial Statements other than Large and Non-Listed

**317. The review of the sample of PIE financial statements revealed likely non-compliance in a number of areas.** The banking sector financial statements reviewed generally appeared to be better presented than those of other PIEs. However, all categories of PIEs financial statements reviewed were found in need of improvement in respect

<sup>324</sup> The review is not akin to a formal audit review and is based only on the evidence included in the financial statements. The reviewer does not examine underlying evidence on the practical application of auditing standards, audit quality, or general challenges facing the audit profession and does not have access to auditors.

<sup>325</sup> ISA 700 *Forming an Opinion and Reporting on Financial Statements*

<sup>326</sup> ISA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*

<sup>327</sup> IFRS(M) is basically an older version of IFRS Accounting Standards. Perhaps most significantly, IFRS(M) has deferred to 2024 the application of both IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* and is yet to include IFRS 17 *Insurance Contracts*.

of some pervasive likely non-compliance issues observed across all sectors (for example, insufficient disclosures about income taxes, key sources of estimation uncertainties and other judgments, and inadequate disclosure of financial risk management and exposures).

**318. Nine of the ten sets of PIE annual financial statements reviewed were audited.** From the IFRS(M) reporting framework perspective, the set of unaudited consolidated financial statements appeared obviously incomplete and fundamentally deficient. Although the audited financial statements reviewed appeared to be significantly better presented than the unaudited financial statements, they were also found to be in need of significant improvement. The profile of auditors covered in the sample of nine sets of audited financial statements can be described as:

- \* two “big 4” firms (auditing three sets);
- \* one “mid-tier” firm (auditing two sets); and
- \* smaller firms (auditing four sets).

Pervasive issues were identified across all sectors and all financial reporting frameworks used

**319. There were some examples of good practice, but the overall quality of financial reporting needs improvement due to likely non-compliance identified in several areas.** One of the audit reports on the audited financial statements reviewed was qualified,<sup>328</sup> indicating significant financial reporting non-compliance issues. Unqualified audit reports could suggest the attainment of at least the minimum level of compliance with the standards, assuming that audits were adequately performed. The review of the sample of financial statements from all sectors and across all ownership structures revealed some pervasive and some sector specific instances of questionable financial reporting practices, and some cases of probable non-compliance with the relevant

reporting framework. The issues identified impact on the quality of financial information presented and disclosures, ultimately leading to less reliable information being available for decision making and accountability of those charged with governance.

**320. Pervasive non-compliance issues observed in all industries and all financial reporting frameworks used included:**

**\* Financial statement presentation.<sup>329</sup>**

Management generally appeared to have considered some aspects of materiality. However, the organization and flow of financial statements was sometimes very difficult to follow with redundant, immaterial, or irrelevant information disclosed with boilerplate disclosures. Both omissions and cluttering deny external resource providers the entity-specific information that the relevant reporting framework specifies disclosure of, consequently inhibiting their abilities to make their own projections of the reporting entity's future cash flows and to hold management to account.

**\* Disclosure of significant judgments made in applying accounting policies.<sup>330</sup>** Some entities omitted these disclosures in their entirety. Other entities omitted some seemingly significant judgments.<sup>331</sup> Some entities disclosed boilerplate information about the significant judgments they identified. These omissions deny external resource providers the entity-specific information about significant judgments they need to inform their resource allocation decisions and to hold management to account.

**\* Disclosure of key sources of estimation uncertainty.<sup>332</sup>** Some entities omitted these disclosures in their entirety. Other entities appear to have omitted some key sources of estimation uncertainty from these disclosures.<sup>333</sup>

<sup>328</sup> A set of audited SOE financial statements reviewed was accompanied by a qualified audit report in respect of two asset existence issues: (i) the company's inability to present title deeds in respect of particular fixed assets; and (ii) the auditor's inability to attest particular inventory existence because they were appointed auditor after the stock count.

<sup>329</sup> IAS 1 *Presentation of Financial Statement*

<sup>330</sup> Paragraphs 122-124 of IAS 1

<sup>331</sup> For example, some judgments identified by the external auditors as key audit matters because of the significance of the judgment inherent in applying particular accounting policies.

<sup>332</sup> Paragraphs 125-129 of IAS 1

<sup>333</sup> For example, some items identified by the external auditors as key audit matters because of the inherent significant estimation uncertainty.



Where key sources of estimation uncertainty disclosures were made, boilerplate information was typically provided rather than quantified entity-specific explanations of the assumptions made and information about the sensitivity of estimates to changes in assumptions, the range of reasonably possible outcomes, and changes made to past assumptions during the year. For example, disclosing that “the fair value of financial instruments that are not quoted on an active market is determined using valuation techniques” does not sufficiently help users of financial statements to understand the judgements that management makes about the future and about other sources of estimation uncertainty. Consequently, external resource providers are denied the fuller understanding of key sources of estimation uncertainty that are required to inform their resource allocation decisions and to hold management to account.

- \* **Disclosure of events after the reporting period.**<sup>334</sup> Despite the heightened uncertainties of the post-COVID pandemic period, increasingly volatile geopolitical events, and unsettled domestic, regional, and international economies, three entities explicitly identified no significant events after the reporting period and another entity made no post-balance sheet event disclosures. Some entities’ disclosures about events after the reporting period omitted financial effects. Another entity included disclosures seemingly unrelated to events after the reporting period in its post-balance sheet note. Consequently, external resource providers are potentially denied the entity-specific decision-useful information that is required about the nature and the effects of material post-balance sheet events.
- \* **Related party disclosures.**<sup>335</sup> One company appears to have omitted all related party disclosures from their financial statements. The companies that made disclosures about their material related party relationships generally provided insufficient information to explain the nature of the relationships, how the risk

exposures were managed,<sup>336</sup> and whether and to what extent transactions were at arms-length.<sup>337</sup> External resource providers are denied a fuller understanding of the risks and obligations the entity assumes. This is particularly the case for related party transactions where considerations other than commercial might drive the decision-making processes. An understanding of the risks and obligations the entity assumes is required to inform resource allocation decisions and to hold management to account.

- \* **Income taxes.**<sup>338</sup> There were insufficient disclosures about the estimates and other judgments made in recognizing and measuring income tax assets and liabilities. In particular, in accounting for uncertain tax positions and in determining the tax rate at which to measure deferred tax assets and liabilities. Also, four entities omitted tax rate reconciliations from their note disclosures. Some other entities appeared to omit deferred tax from their tax reconciliations, effectively reconciling only to current taxation. Other entities used boilerplate descriptors in their tax rate reconciliations. Consequently, external resource providers are denied access to entity-specific information relevant to informing their investing and lending decisions.
- \* **Provisions and contingent liabilities.** Despite most of the financial statements reviewed identifying provisions or contingent liabilities, or both, as involving key source of estimation uncertainty or other significant judgment: (i) none disclose how liabilities for single obligations are measured; and (ii) all make insufficient disclosures about the nature and the amount of provisions and contingent liabilities, particularly, but not only, when identified as involving significant judgment or key source of estimation uncertainty. Despite an auditor disclosing as part of key audit matters that it “carried out a test of sensitivity analysis prepared by management on the main assumptions,” the company’s financial statements did not include such sensitivity analysis.

<sup>334</sup> IAS 10 *Events After the Reporting Period*

<sup>335</sup> IAS 24 *Related Party Disclosures*

<sup>336</sup> IFRS 7 *Financial Instruments: Disclosures* does not specify exceptions to financial instruments risk reporting for related party transactions.

<sup>337</sup> Paragraph 17 of IAS 24 requires the disclosure of the nature of related party relationships.

<sup>338</sup> IAS 12 *Income Taxes*

- \* **Fair value measurement.**<sup>339</sup> Shortfalls observed include: (i) omitting disclosures about the fair value of investment property, revalued property, plant, and equipment, and financial instruments; (ii) likely inappropriately concluding that fair value approximates carrying amount for most, if not all, of the entity's financial instruments; and (iii) inadequate disclosures, including omitting disclosing of the fair value measurement hierarchy.<sup>340</sup> Incomplete fair value measurement disclosures potentially detract from users' abilities to make informed resource allocation decisions and to hold management to account.
- \* **Liquidity risk disclosures.**<sup>341</sup> Most entities provided only boilerplate disclosures about how they manage liquidity risk and the nature and extent of the liquidity risk to which the entities are exposed. Improvements could be made by: (i) being entity-specific in explaining how liquidity risk is managed; (ii) using more appropriate time bands; (iii) including all relevant on-balance sheet and off-balance sheet items; (iv) preparing maturity analysis using undiscounted cash flows; and (v) allocating liabilities to the earliest period in which the entity can be required to pay. Consequently, external resource providers are denied access to entity-specific information relevant to informing their investing and lending decisions about exposure to and the management of liquidity risk.
- \* **Market risk disclosures.**<sup>342</sup> Some entities omitted these disclosures in their entirety. Most entities provided only boilerplate disclosures about how they managed market risk. Some entities did not disclose the range representing the limit of the reasonably possible changes in interest rates and currency exchange rates for 2023. Consequently, external resource providers are denied access to entity-specific information relevant to informing their investing and lending decisions about exposure to and the management of market risk.

- \* **Asset impairment testing.** Despite the lingering effects of the pandemic and rising regional and international geopolitical uncertainties, some entities appear not to have performed impairment testing. Likely non-compliance with aspects of the reporting of asset impairment testing was observed across all sectors and across the range of applicable asset impairment models.<sup>343</sup>

## Banking Sector – IFRS Accounting Standards Compliance Issues

**321. The three banking-sector financial statements reviewed generally appeared to be better presented than those of other sectors reviewed (e.g., insurers and SOEs).** However, all financial institutions reviewed likely did not comply with at least some aspects of IFRS Accounting Standards in some key areas, even if the non-compliance presented itself in different ways.

**322. Areas of likely non-compliance that are pervasive across all sectors and all financial reporting frameworks used are set out above.**

These matters were observed in the sample of bank financial statements. For brevity, these matters are not reproduced here.

**323. Other areas of likely non-compliance observed in bank financial statements include:**

- \* **First-time adoption of IFRS Accounting Standards as issued by the IASB.** Banks were required to apply IFRS as issued by the IASB for the first time in their 2022 financial statements. However, one appears not to have applied IFRS 1 *First-time Adoption of International Financial Reporting Standards*; and the other two banks purport that adopting IFRS had no material effects on their financial statements. Such potential non-compliance denies external resource providers the information they need to make their own

<sup>339</sup> IFRS 13 *Fair Value Measurement*

<sup>340</sup> IFRS 13 and, when relevant, IFRS 7 *Financial Instruments: Disclosures*

<sup>341</sup> IFRS 7

<sup>342</sup> IFRS 7

<sup>343</sup> For example, for financial asset impairment testing: (i) the financial institutions reviewed use IFRS 9 *Financial Instruments*; (ii) there was no evidence of financial asset impairment testing in one insurance company's financial statements; (iii) the other insurance company reviewed incurs an audit qualification for applying IFRS 9 only to the financial assets of its banking subsidiary and a further audit qualification for not recognizing any impairment loss in respect of particular past due loans of the insurance parent (it did not disclose the impairment test applied, if any, to these past due assets); and (iv) the SOEs reviewed generally use the alternative methods under IFRS 9 that are not available to financial institutions.

projections of the reporting entity's future cash flows and to assess the stewardship of management.

**\* New and amended IFRS requirements that are not yet effective.**

All of the financial statements reviewed made boilerplate disclosures about the anticipated effects of new and amended IFRS requirements that are not yet effective. Such cluttering potentially conceals important information and potentially denies external resource providers the entity-specific information they need to make their own projections of the reporting entity's future cash flows and to assess the stewardship of management.

**\* IFRS 9 expected credit loss model for the impairment of financial assets.**

All banks likely underapplied at least some aspects of IFRS 9's expected credit loss (ECL) financial asset impairment model. For example, all of the banks reviewed appear to make only boilerplate disclosures about forward looking information, like macroeconomic variables, before largely omitting that information from their application of the ECL model for loan loss provisioning; all banks also appear to measure ECLs in accordance with Montenegro-specific regulations; one bank continues to report using IAS 39's significant and prolonged impairment indicator for its fair value through other comprehensive income financial assets. Furthermore, although all banks identified measuring ECLs as involving key sources of estimation uncertainty they did not make all of the disclosures triggered by that determination. Such potential non-compliance again denies external resource providers the entity-specific information they need to make their own projections of the reporting entity's future cash flows and to assess the stewardship of management.

## Insurance Companies – IFRS(M) Compliance Issues

**324. Both insurance companies reviewed likely did not comply with at least some aspects of IFRS(M) in some key areas, even if the non-compliance presented itself in different ways.**

**325. One insurer's consolidated financial statements were:** (i) unaudited; (ii) incomplete (omitted most note disclosures, other than related party disclosures); and (iii) the heading for comparative numbers is headed 'revised', however, no disclosures about such revision were to be found. Such non-compliance denies external resource providers the information they need to make their own projections of the reporting entity's future cash flows and to assess the stewardship of management. This entity's stand-alone financial statements were complete and audited, however they included explicit statements of non-compliance with disclosures required by IFRS 4.

**326. Areas of likely non-compliance that are pervasive across all sectors and all financial reporting frameworks used are set out above.** These matters were observed in our sample of insurer financial statements, including the stand-alone financial statements. For brevity, these matters are not reproduced here.

## SOEs and other PIEs – IFRS(M) Compliance Issues

**327. The four SOE and one other PIE (i.e. non-bank, non-insurance, and non-SOE) IFRS(M) financial statements reviewed, did not comply with at least some aspects of IFRS(M) in some key areas, even if the non-compliance presented itself in different ways.**

**328. Areas of non-compliance that are pervasive across all sectors and all financial reporting frameworks used are set out above.** These matters were observed in our sample of SOE and other IFRS(M) financial statements. For brevity, these matters are not reproduced here.

**329. Other areas of non-compliance observed in SOEs and one other (i.e. non-financial and non-insurance) IFRS(M) financial statements include:**

**\* Unintelligible financial statements.** The financial statements of one SOE are so cluttered and confusingly presented that they are unintelligible. Consequently, it is likely impossible to use the information in those financial statements as inputs to inform resource allocation decisions and to hold management to account.

- \* **Treasury shares.**<sup>344</sup> Some entities incorrectly account for treasury shares as assets.<sup>345</sup> One such entity also incorrectly presented the cash outflow from purchasing its own shares in the investing section of its statement of cash flows. Uncorrected errors inhibit external resource providers' abilities to use the financial information as inputs to make their own projections of the reporting entity's future cash flows and to hold management to account.
- \* **Unverifiable recognized assets.**<sup>346</sup> The external auditors of one SOE qualified the audit report with respect to unverified fixed assets and inventories. Possible misstatement of the balance sheet denies external resource providers information about the entity's resources and obligations (and the related income and expenses) that they need to inform their resource allocation decisions and to hold management to account.
- \* **Questionable classifications.** Some entities likely apply the wrong accounting standard to some items. For example, an entity seems to apply IAS 16 *Property, Plant and Equipment* to some of its non-bearer-plant biological assets.<sup>347</sup> Insufficient disclosures supporting some prior period adjustments deny external resource providers information about the nature of the changes which could affect their resource allocation decisions and could be useful in holding management to account. For example, judgments in: (i) differentiating between changes in accounting estimates; (ii) changes in accounting policies; reclassifications and (iii) the correction of prior period errors.<sup>348</sup>
- \* **Questionable determinations.** Other entities used accounting models for some items that likely did not qualify for such use. For example:

- some entities appear to account for minority passive investments in the equity instruments of other entities using the cost model;
- another entity appears to use the revaluation model for an intangible assets class the fair value of which could not be measured with reference to an active market.

Uncorrected errors inhibit external resource providers' abilities to use the financial information as inputs to make their own projections of the reporting entity's future cash flows and to hold management to account.

- \* **Revaluation model.**<sup>349</sup> Likely shortfalls observed include: (i) using the revaluation model for intangible assets whose fair value cannot be measured with reference to an active market; (ii) not remeasuring to fair value with sufficient regularity;<sup>350</sup> (iii) recording revaluation gains/losses directly in equity; and (iv) inadequate disclosures. Such deficiencies potentially detract from users' abilities to make informed resource allocation decisions and to hold management to account.
- \* **Inadequate impairment testing of financial<sup>351</sup> and non-financial assets<sup>352</sup>** likely impacting financial position and incomplete disclosures of asset impairment testing denying users a proper understanding of the key measurement assumptions and sensitivities to impairment.<sup>353</sup>

## Compliance with Auditing Standards

330. An unqualified audit report indicates the attainment of at least a minimum level of compliance with the relevant financial reporting framework. Nine of the ten sets of PIE financial

<sup>344</sup> IAS 1, IAS 7 *Statement of Cash Flows*, and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

<sup>345</sup> Paragraph 33 of IAS 32 *Financial Instruments: Presentation* (and before that SIC 16) specifies that treasury shares must be deducted from equity.

<sup>346</sup> Typically, infrastructure assets under IAS 16

<sup>347</sup> IAS 41 *Agriculture* applies to biological assets in agricultural activity other than bearer plants

<sup>348</sup> In some cases, this leaves the reader wondering if particular adjustments are: (i) corrections of prior period errors; (ii) changes in accounting estimate; (iii) changes in presentation or classification following a significant change in the nature of the entity's operations or a review of its financial statements; (iv) or something else.

<sup>349</sup> IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*

<sup>350</sup> IAS 16 requires remeasurement to fair value whenever reporting-date carrying amount is significantly different from reporting-date fair value.

<sup>351</sup> IFRS 9 *Financial Instruments* for the one entity that early adopted it; IAS 39 *Financial Instruments: Recognition and Measurement* for the other entities applying IFRS(M).

<sup>352</sup> IAS 36 *Impairment of Assets*

<sup>353</sup> IAS 1, IAS 36, IFRS 7, and IFRS 9

statements reviewed were audited. A qualified audit opinion is expressed on one of the nine sets of audited financial statements reviewed. Nonetheless, all of the audited financial statements reviewed are likely in need of improvement. During the review of the financial statements, audit reports were also assessed for anecdotal evidence on the extent to which they complied, in practice, with applicable auditing standards. The same limitations apply in analyzing a relatively small sample of audit reports,<sup>354</sup> and the review comprises only an analysis of the extent to which reports prepared are in compliance with ISA 700<sup>355</sup> and ISA 701<sup>356</sup> and general perceptions drawn from the financial statements themselves.

**331. Compliance with the relevant financial reporting framework.** Based on the review of audit reports on PIE financial statements, it can be concluded that standards relevant to audit reporting were generally being complied with. One of the audit reports reviewed was qualified, for two matters, indicating independent assessment by auditors. However, the issues of compliance with IFRS or IFRS(M), referred to above, suggest that there may have been further issues with compliance with auditing standards by auditors. This is particularly, but not only, the case for:

- \* Presentation and disclosure issues, including the significant use of boilerplate language and the omission of entity-specific information about the entity's most significant judgments and key sources of estimation uncertainty and with regard to risk management; and
- \* Recognition and measurement, including use (or apparent use) of accounting policies that are inconsistent with the requirements of the relevant financial reporting framework.

**332. Audit reports: On the basis of the review of the external auditor reports on the sample of nine sets of audited PIE financial statements reviewed:**

- \* The auditors of two sets of SOE financial statements did not present key audit matters (both auditors were smaller audit firms).

- \* One or two key audit matters were reported in each of the other seven audit reports.
- \* Deficiencies observed in reported key audit matters included likely omission of some key audit matters (e.g., at least some of the most significant judgments<sup>357</sup> and key measurement assumptions disclosed in the financial statements<sup>358</sup> that were not identified as key audit matters). Improvements could generally also be made to the overall quality of the key audit matters, for example, increasing their relevance by using less boilerplate language and, in particular, by relating the matter more directly to the specific circumstances of the entity and referencing more precisely, if at all, to the note disclosures in the financial statements.

## Review of Large Non-Listed Companies and SMEs Financial Statements

**333. The 45 non-PIE IFRS(M) financial statements reviewed included 5 large non-PIEs mostly complying with IFRS(M) and filing requirements, and 40 SMEs that did not comply with at least some aspects of IFRS(M) in some key areas.** 20 percent of SMEs did not file notes that were mandated for filing for the first time in 2022 in Montenegro. Better presentation and disclosure were observed by large companies and those SMEs that are either subsidiaries of foreign companies or operate in the financial sector.

**334. For SMEs, areas of likely non-compliance that are pervasive across all sectors and all financial reporting frameworks used are set out above.** These matters were observed in our sample of PIEs IFRS(M) financial statements. For brevity, these matters are not reproduced here.

**335. Other areas of likely non-compliance observed in SMEs' IFRS(M) financial statements include:**

- \* **Incomplete financial statements.** About 20 percent of the sets of financial statements omitted one or more of the following components of financial statements: (i) statement of changes in equity; (ii) statement of cash flows; and (iii) notes.

<sup>354</sup> The review is not akin to a formal audit review and is based only on the evidence included in the financial statements. The reviewer does not examine underlying evidence on the practical application of auditing standards, audit quality, or general challenges facing the audit profession and does not have access to auditors.

<sup>355</sup> ISA 700 *Forming an Opinion and Reporting on Financial Statements*

<sup>356</sup> ISA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*

<sup>357</sup> In accordance with paragraphs 122-124 of IAS 1

<sup>358</sup> In accordance with paragraphs 125-129 of IAS 1



Most of the other sets appeared to have significant disclosure deficiencies including significant omissions from the notes. Micro and small companies are exempt from preparing a statement of change in equity or cash flow statement.

- \* **Disclosure deficiencies.** Most sets of financial statements for SMEs appeared to have significant disclosure deficiencies including significant omissions from the notes.
- \* **Unintelligible financial statements.** A few sets of financial statements were so cluttered and confusingly presented that they were unintelligible. Consequently, it is likely impossible to use the information in those financial statements as inputs to inform resource allocation decisions and to hold management to account.
- \* **Unverifiable recognized assets.** A set of financial statements included reference to unverified fixed assets. Possible misstatement of the balance sheet denies external resource providers information about the entity's resources and obligations (and the related income and expenses) that they need to inform their resource allocation decisions and to hold management to account.

About 30 percent of the sets of non-PIE financial statements reviewed were not accompanied by an audit report. The auditor was named as responsible person for the preparation of financial statements of two sets of non-PIE financial statements.

**336. The results of the sample reviews of financial statements, external auditor reports on those financial statements, and stakeholder perception surveys conducted as part of the ROSC A&A assessment indicate that the overall quality of financial reporting in the country needs to be improved.** Respective measures for improving the corporate financial reporting practices are outlined in the above sections of the report. In the meantime, the ROSC A&A team also observed a need to improve the quality of accounting practitioners in Montenegro. This would include specific provisions to be introduced in the local legislation and regulations as to who can prepare and sign-off a company financial report. In particular, it should be considered requiring that the financial statements submitted in terms of the law be attested to by an appropriately qualified accountant, who should have up-to-date professional skills, as well as be subject to an ethical framework and an I&D process. The designated accountant should possess skills proportionate to the responsibility assumed (so greater skills for greater responsibilities). Currently, the legislation does not define any specific requirement, except for not been convicted of a crime, for persons responsible for keeping of the books of account and the preparation of financial statements.





## III. KEY FINDINGS AND AREAS FOR CONSIDERATION

337. This section makes a series of policy and institutional recommendations to help improve the corporate financial and sustainability reporting framework in Montenegro as a result of ROSC A&A 2023 assessment.<sup>359</sup> Overall, the recommendations are intended to improve the quality and reliability of financial reporting and auditing practices in Montenegro, ultimately contributing to the stability and transparency of the country's financial system.

### Regulatory and Institutional Framework

338. The existing legal framework for corporate reporting should be reviewed and optimized. The current general reporting requirements are contained within the Law on Accounting, the Law on Auditing, the Company Law and other laws as applicable.

<sup>359</sup> The status of recommendations of ROSC A&A assessment conducted in 2007 is not reflected in this report due to too long period passed since the previous ROSC, with some progress achieved since then and reversed in several areas as observed by the team.

Within these laws, there are duplications, gaps, and contradictions. Certain requirements that would logically belong under one law are instead contained under a different law. The effect is to frequently make the law difficult to understand and difficult to comply with, and in some circumstances to force entities to decide which law they are going to comply with. As part of the current process to amend these laws, consideration should be given to optimizing and streamlining the structures of the laws and to removing duplications, gaps, and contradictions.

**339. Montenegro should continue its efforts to further align with EU legislation in the area of accounting, financial and sustainability reporting, auditing, and public oversight.** This will contribute to ongoing negotiations on EU accession and enhance the country's overall capacity to uphold the membership obligations. Further alignment is required to:

- \* **improve the legal framework** by introducing a differential financial reporting framework and removing the ambiguities and possible interpretations regarding the simplified financial reporting requirements for small and micro entities (see detailed recommendation below in paragraph 340).
- \* **enhance public oversight and introduce specific requirements for audits and auditors of PIEs**, as per EU Regulation No. 537/2014 providing specific requirements for audits and auditors of PIEs. Following EU accession, this regulation will apply in Montenegro in its entirety. Therefore, early application by incorporating its provisions into local legislation would allow PIEs and their auditors to be better prepared. The following areas could benefit from better alignment with the EU acquis: (i) appointment of statutory auditors and the role of the audit committee, audit fees limitation in certain circumstances, including when non-audit services are provided by the same auditors; (ii) engagement quality control review before audit report and additional report to the audit committee are issued; (iii) preparation of an additional report to the audit committee; (iv) monitoring market quality and assessing the performance of Audit Committees; and (v)

competition and international cooperation with regard to quality assurance reviews, investigations and on-site inspections.

\* **introduce mandatory sustainability reporting and assurance of sustainability reporting.**

Internationally, the development and quality of sustainability reporting is becoming the preemptive area of focus for both PIEs and governments. Montenegro has no framework or legal requirement for sustainability reporting or assurance of sustainability reporting, although a few entities that are controlled by international entities already report this information to their parent entities. Consideration should be given to the CSRD and the ESRS. After EU accession, the EU Regulation<sup>360</sup> supplementing the EU Accounting Directive as regards sustainability reporting standards will apply in its entirety. The assurance of sustainability reporting by statutory auditors or audit firms would help ensure the connectivity and consistency of financial and sustainability information, which is particularly important for users of sustainability information. Statutory auditors and/or audit firms already verify the financial statements and the management report. Therefore, consideration should be given to the audit profession providing assurance on sustainability reporting. However, it is important to introduce appropriate legal mechanisms and procedures to mitigate the risk of further concentration in the audit market. This concentration could potentially jeopardize the independence of auditors and lead to increased audit fees or fees related to the assurance of sustainability reporting.

**340. A tiered reporting framework should be applied in Montenegro.** The Law on Accounting is based on full IFRS Accounting Standards, which is considered to be too demanding for medium, small, and micro entities. By adopting and enforcing the Rulebook for accounting, the regulator attempted to introduce simplified financial reporting requirements for certain categories of entities, which is not consistent with the requirement of the Law on Accounting. To address the inconsistency, it is recommended to introduce in the law a provision for differential (three- or four-tier)

<sup>360</sup> Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing Directive 2013/34/EU as regards sustainability reporting standards (<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32023R2772>)

corporate financial reporting frameworks depending on the size and the significance of the public interest of the reporting entity. This approach seeks to align resources required to prepare financial statements with the public and regulatory interest in those financial statements. Each entity category should have a defined mandatory framework, with allowance for an entity to elect to apply a financial reporting framework of a higher tier. For example, entities in a category that specifies use of a simplified financial reporting standards would be permitted to choose to apply full IFRS Accounting Standards, but not vice-versa. The proposed differential financial reporting requirements that are recommended to be introduced by legislation, are summarized below:

- \* **IFRS Accounting Standards should only be required for individual and consolidated financial statements of PIEs.** This would require revision of the PIE definition to determine whether other financial institutions within the scope of the Law on Financial Leasing, Factoring, Purchase of Receivables, Micro-Lending, and Credit-Guarantee Operations should continue to be classified as PIEs. It is recommended that the definition fully comply with the PIE definition of the EU Accounting Directive. PIEs should still be subject to mandatory external audits and their audited financial statements should be filed and made publicly available. Their auditors should be subject to more stringent requirements, including having appropriate skills and resources for larger audits and a defined internal code of ethics that precludes holding shares in client entities.<sup>361</sup> Additional disclosure requirements for PIEs, as mandated by the EU Accounting Directive but which are not in the scope of IFRS, should be introduced.
- \* **Consideration could be given to adopting the IFRS for SMEs for individual and consolidated financial statements of medium-sized entities or to developing of a local financial reporting standard compliant with the EU Accounting Directive.** These entities should be allowed to use IFRS Accounting Standards as an alternative

framework. Although the IFRS for SMEs is not currently endorsed by the European Commission, a compatibility analysis conducted by EFRAG in 2010 revealed only 6 incompatibilities.<sup>362</sup> Since then, both the IFRS for SMEs and EU Directives have been amended, resulting in even fewer incompatibilities. The EU Accounting Directive does not prohibit Member States from requiring medium-sized enterprises to disclose information beyond what is required or permitted by the Directive, consequently the IFRS for SMEs could be a suitable option for medium-sized entities in Montenegro. Additional disclosure requirements for medium-sized enterprises, mandated by the EU Accounting Directive but not covered by IFRS Accounting Standards or the IFRS for SMEs, should be required for medium-sized enterprises. Mandatory external audits, filing, and publication of financial statements for medium-sized entities should be maintained as currently is. As an alternative framework to the IFRS for SMEs, consideration should be given to the development and adoption of a local financial reporting standard with different levels of disclosure to suit the needs of various categories of entities that are not PIEs.

**341. Simplified financial reporting and disclosure requirements should be applied to small and micro entities as mandated by the EU *acquis*.** The simplified requirements for small and micro entities could be developed drawing on the experience of other countries, such as Georgia.<sup>363</sup> The accounting and disclosure requirements for micro entities could be further simplified by considering additional options or exemptions provided by the EU Accounting Directive. Consideration should be given to further simplifications, such as: (i) allowing micro entities to deviate from accrual accounting with respect to other charges as permitted by Article 36(1)(a) of the EU Accounting Directive;<sup>364</sup> (ii) exempting them from the requirement to prepare notes to the financial statements, provided that information on the acquisition of own shares and the information

<sup>361</sup> In a similar way as regulated by EU Regulation No. 537/2014 regarding specific requirements for audits and auditors of PIEs

<sup>362</sup> [https://efrag-website.azurewebsites.net/\(X\(1\)S\(uhlahbqjdzgsfth2yn4f41x\)\)/Activities/172/Compatibility-Analysis-IFRS-for-SMEs-and-the-Council-Directives](https://efrag-website.azurewebsites.net/(X(1)S(uhlahbqjdzgsfth2yn4f41x))/Activities/172/Compatibility-Analysis-IFRS-for-SMEs-and-the-Council-Directives)

<sup>363</sup> [https://saras.gov.ge/Content/files/GGF\\_GFRS\\_Category\\_4\\_entities\\_\(clean\)\\_F.pdf](https://saras.gov.ge/Content/files/GGF_GFRS_Category_4_entities_(clean)_F.pdf)

<sup>364</sup> Deviations are permitted only with respect to other charges; however, for income, inventory, and staff costs, accrual accounting is still required.

required by Article 16(1)(d),<sup>365</sup> such as total amount of any financial commitments, guarantees, or contingencies or any commitments concerning pensions and affiliated or associated entities, and Article 16(1)(e),<sup>366</sup> such as the amount of advances and credits granted to members of the administrative, managerial and supervisory bodies, is disclosed at the bottom of the balance sheet; (iii) exempting them from the obligation to prepare a management report, provided that information on the acquisition of own shares is included in the notes to the financial statements; and (iv) allowing micro entities to prepare an abridged balance sheet and an abridged profit and loss account.

**342. The stock exchange should give consideration to simplifying its reporting requirements and strengthening its admission requirements.**

- \* The need for quarterly IFRS(M) reporting by listed entities should be reconsidered. Quarterly reporting places significant burdens on the systems and accounting functions within an entity. It is not clear that the benefits of the higher frequency of information exceed the costs of producing that information, in particular considering the low liquidity of the stock market and the availability of other information for regulated entities. The existing semi-annual reporting should be maintained, and this should provide sufficient frequency of data.
- \* Consideration should be given to streamlining the current stock market. The stock market as currently operating includes 255 individual stocks. However, a significant number of these are never traded and many do not have any free float available for trading. This has the effect of overstating the exchange's market capitalization, and distorting volume information.

Quarterly reporting and the high number of individual stocks consume significant regulatory and management effort to maintain the market, but for limited benefit. The additional volume of reporting necessitates scarce regulatory resources to review

compliance. Regulatory resources freed up from this change can be applied to improve monitoring of more significant entities thereby ultimately improving the reporting of those entities.

**343. Development and adoption of a consolidated Code of Corporate Governance for all PIEs should be considered, and relevant laws and regulations be updated to ensure its effective enforcement.** Regulations on corporate governance in Montenegro are fragmented, with listed companies subject to an explicit code of governance, banks having some corporate governance requirements partially incorporated into law or regulation, and others (for example insurers, SOEs) having no specific requirements. There are both gaps and duplications. PIEs are designated as such because of their accountability to the public. That accountability extends beyond financial matters and includes governance matters. Issuing sector specific frameworks would entail duplication of effort on the part of drafters and regulators and risk inconsistent reporting requirements between entities that are otherwise similar (for example inconsistencies between listed and unlisted banks). A consolidated Code of Governance for all PIEs should be issued by a single, centralized authority, either the MoF, or a body mandated and capacitated by the MoF, coordinating with individual regulators. Consideration can be given to using the existing CMA process as a base. The Consolidated Code of Governance should be in line with the G20/OECD Principles of Corporate Governance (revised in 2023), particularly to address sustainability and resilience matters to help companies manage climate-related and other sustainability risks and opportunities. The code also should take into consideration Recommendation of the Council on Guidelines on Corporate Governance of State-Owned Enterprises (adopted in 2015 and updated in 2024), with particular attention to the recommendation for SOEs to be subject to the same quality of disclosure, accountability, and transparency requirements as listed companies as well as setting up specialized committees, particularly audit committee, composed of independent and qualified members,

<sup>365</sup> Article 16(1)(d) of EU Accounting Directive requires to disclose the total amount of any financial commitments, guarantees, or contingencies that are not included in the balance sheet, and an indication of the nature and form of any valuable security which has been provided; any commitments concerning pensions and affiliated or associated undertakings shall be disclosed separately.

<sup>366</sup> Article 16(1)(e) of EU Accounting Directive requires to disclose the amount of advances and credits granted to members of the administrative, managerial, and supervisory bodies, with indications of the interest rates, main conditions, and any amounts repaid or written off or waived, as well as commitments entered into on their behalf by way of guarantees of any kind, with an indication of the total for each category.

for overseeing disclosure, internal controls and audit-related matters. The legal framework should be amended to ensure the consolidated Code is applied consistently, with monitoring of compliance and consequences for non-compliance. In preparing a new corporate governance framework, consideration should be given to international and EU good practice. International good practices recommend that PIEs prepare and publish an annual self-assessment of their compliance with the Code, normally as part of the annual report.

**344. It is recommended to strengthen the role and responsibilities of the Audit Committee.** The legal framework should clearly require a majority of the audit committee members to be independent of the entity, and at least one member should have competence relevant to the sector in which the entity operates. Additionally, only PIEs should be mandated to establish an audit committee, while for other entities, it should be voluntary. Currently, all entities subject to mandatory audit are required to establish an audit committee. The audit committee should be mandated to report annually, either directly to the shareholders or to the entity's administrative or supervisory body. This will facilitate effective oversight and decision-making by the governing body. Consideration should be given to establishing the audit committee as a committee of the entity's administrative or supervisory body, instead of the current practice where it is a standalone committee. Audit committee members should be legally mandated to inform the administrative or supervisory body of the audited entity about the outcome of the statutory audit, explain how the statutory audit contributed to the integrity of financial reporting, and describe the role of the audit committee in that process.

**345. The legal framework should clearly regulate the role of the audit committee in the process of appointing statutory auditors or audit firms for PIEs as mandated by the EU *acquis*.** In the case of PIEs, auditors should be nominated through a fair selection procedure organized by the audited entity. This procedure should include the announcement, preparation of tender documentation, and evaluation of proposals. The audit committee should submit a recommendation to the administrative or supervisory body of the audited entity for the appointment of statutory auditors or audit firms. The recommendation should be justified and contain at least two choices

for the audit engagement, and the audit committee should express a duly justified preference for one of them.

**346. The legal framework should clearly state that statutory auditors cannot be dismissed without proper grounds.** Both the audited entity and the statutory auditor or audit firm should be required to inform the Audit Council about dismissals and provide an adequate explanation for the reasons behind them. These reasons should be based on objective criteria and should not include differences of opinion on accounting treatments or audit procedures. Providing adequate explanations for dismissals will enable the Audit Council to assess the reasons behind them and take appropriate actions if necessary.

## Monitoring and Enforcement of Financial Reporting

**347. The existing centralized database of corporate reporting should be refined and simplified.** Duly approved annual financial statements, the management report, and the audit opinion (where required) should be submitted on the same date and preferably only in one place. Currently, the submission dates align with tax and statistical requirements, and the checks conducted on the submissions focus on the needs of the tax authority. This can result in potentially incomplete and unaudited data being made publicly available, multiple iterations of the same data being released to the public as financial statements are resubmitted over time, and little or no explanation being provided for changes in the submitted data.

- \* It would be better if the database were managed separately from the operational tax authority.
- \* Information required for statistical purposes would be submitted on the appropriate date (currently March 31), reviewed for completeness and accuracy within the objectives of that information, and supplied to the statistical authorities. This information would likely be unaudited.
- \* Information necessary for a completed tax submission would be submitted on the appropriate date for tax compliance purposes. If audited



information is required, then the submission would be aligned with the date that audited financial statements are otherwise required to be submitted, and appropriate checks for consistency would be made.

- \* Consideration should be given to submitting duly approved annual individual/consolidated financial statements and the management report together with the audit opinion only once, on the dates currently mandated for the submission of audited financial statements and in a form that allows multiple users, including regulators such as CMA, ISAM, and CBCG, to easily access and use the data. The annual report would only be made publicly available on this date. Any later resubmission should require a reconciliation of the changes made.

**348. Regulators' monitoring of general purpose annual financial statements should include reviewing them against applicable financial reporting standards (such as IFRS(M)) on a proportional basis.** The legal and regulatory framework for financial reporting has been in place for a number of years. However, non-compliance, as identified elsewhere in this report, suggests that regulators should be performing a more detailed review of financial statements submitted/published by entities. Non-compliance is a feature to a greater or lesser extent in many markets; however, it is exacerbated in those markets where limited or no compliance reviews take place. Lack of resources and capacity at both regulator and industry level is a factor. Non-compliance undermines the significant effort that has been made to introduce and implement frameworks and potentially taints the reporting of those entities that are compliant. Monitoring processes should be supplemented by transparent enforcement and sanction mechanisms. A monitoring framework should be risk based and proportional to the size and nature of the reporting entity.

**349. Regulations should provide graduated sanctions, appropriate to the size and the offence type, to facilitate enforcement of compliance with financial reporting and auditing standards' requirements.** Available and new sanctions need to be applied as part of effective enforcement. Existing laws and regulations authorize regulators to review entity annual financial statements including auditor

reports. Regulations contain general sanctions that can be imposed for non-compliance. Although the law does contain sanctions for failing to draw up financial statements in accordance with IFRS Accounting Standards, these sanctions are capped at €2 000. Monitoring findings should be enforceable by specific provisions in relevant laws and regulations with size and offence appropriate sanctions to improve the quality of financial reporting and auditing and protect the public interest.

**350. General purpose financial statements and prudential/regulatory reporting should be distinguished more clearly in the regulations for banks and insurers.** Regulations in issue for banking and insurance include guidance and requirements on financial reporting that can potentially be different from the financial reporting standards. Existing regulations may supplement, enhance, explain, or potentially override the adopted IFRS Accounting Standards. Regulations should more clearly distinguish what the purpose of the regulation is, whether information is intended only to supplement existing financial reporting requirements, and/or whether information is intended only for prudential reporting purposes.

**351. Systematic collaboration between sector regulators and external auditors should be established.** Under the current legal framework, regulators are empowered to contact auditors and request clarifications and/or additional information. Audit firms have a responsibility to report to regulators their findings in certain circumstances, and regulators can require additional work to be done. However, other than for banks, there are no requirements or protocols for periodic meetings or intervention in audit planning. International good practices recommend that regulators should establish a system of collaboration with auditors. Such collaboration should include regular exchanges of information and meetings with responsible audit firms, audit committees, and boards of directors.

**352. Annual publications by each of the stock market regulator (and or the MNSE), the banking regulator, the insurance regulator, and any other regulator charged with reviewing financial statements should detail the material findings of reviews of financial statements.** IFRS/IFRS(M) compliance reviews are being conducted to a limited extent by regulators.



This should be expanded as outlined above. Existing and expanded reviews do result in proactive changes to the financial statements and/or to regulatory action being taken. Consideration should be given to incorporating the findings of these reviews in an aggregated and anonymized form in each of the annual reports of those regulators if they are relevant to entities under regulation. In addition, all material IFRS-relevant issues identified by various regulators should be consolidated and incorporated in a single report. This will have the benefit of enabling an understanding of the review process, providing an opportunity for other entities to learn from the experience of entities that have been subject to review and making all relevant and material information more easily accessible.

## Audit Oversight and Quality Assurance

**353. The MoF should consider increasing the skills and experience of the Audit Council.** While it is a good practice to have independent members, it is also essential for the Council to have at least a member with knowledge and experience of what is an audit, which would be in line with the requirements of the Law on Auditing.

**354. The MoF should consider hiring staff with experience in auditing to perform the audit oversight.** At the time of the mission, the staffing did not include any person with an accounting or auditing qualification or any external auditing experience.

**355. The Law on Auditing should be amended to reduce the number of audit firms required to prepare transparency reports and apply a risk-based approach to quality assurance reviews.** The current requirement is that all audit firms should submit transparency reports and be inspected by the Division for Public Oversight every three years.<sup>367</sup> In practice, the oversight system has not yet reviewed all audit firms, and the current system does not allow the review of auditors performing audit of PIEs to be prioritized. To support the MoF focus resources on the most important areas it is suggested that:

**\* Non-PIE audit firms should not have the requirement for transparency reports.**

Transparency reports would only be required from PIE audit firms, allowing a deeper review of fewer reports.

**\* A risk-based approach to quality assurance reviews is included in the law.** This should require PIE auditors to be reviewed at a minimum every three years but that other audit firms and auditors, unless identified as a risk, would be subject to inspection only once every six years.

**356. A mechanism to monitor, investigate, and prosecute problematic or failed audits should be introduced, with sufficient budget for its activities.**

A quality assurance mechanism is included in the law but there is no provision for the MoF and the Audit Council to deal with concerns related to audits and possible financial scandals. A mechanism to investigate those audits, together with the power to apply sanctions proportionate with audit failures, should be put in place and adequate funding should be budgeted for these tasks.

## Accountancy Profession

**357. Financial statements submitted in terms of the law should be attested to by an appropriately qualified accountant.** Financial statements should be prepared by an appropriately qualified accountant or a registered accounting agency that has the prerequisite, up-to-date professional skills, as well as is subject to an ethical framework and an I&D process. Accountability is enhanced when that responsible individual is required to attest to the correctness of submissions. Where financial statements are prepared by an inhouse accountant, the financial statements should be signed off by the designated accountant. Where the financial statements are prepared by an agency external to the submitting entity, the financial statements should be signed off by a responsible accountant within the agency. The designated accountant should possess skills proportionate to the responsibility assumed (so greater skills for greater responsibilities). Registered and qualified accountants

<sup>367</sup> Other than those defined in points (17) and (18) of Article 2 of Directive 2006/43/EC

should meet minimum CPD requirements to ensure skill levels are maintained. In the event that the financial statements are subsequently found to be deficient, appropriate disciplinary action should be instigated against the responsible accountant.

## Setting Accounting and Audit Standards

**358. Apply the current version of IFRS Accounting Standards as published by the IASB and endorsed by EU or otherwise clearly articulate the process for keeping IFRS(M) updated.** IFRS Accounting Standards aim to provide a high-quality, internationally recognized set of accounting standards that bring transparency, accountability, and efficiency to financial markets around the world. A key element of both transparency and efficiency is helping global investors identify opportunities and risks across the world on a like-for-like basis, improving investment decision-making and capital allocation. For businesses, the use of a single accounting language lowers the cost of capital and reduces international reporting costs. Montenegro currently applies IFRS(M) for most entities. This is based on 2020 IFRS Accounting Standards but excludes IFRS 9 Financial instruments and IFRS 15 Revenue as well as the consequential changes associated with those standards. Applying an outdated IFRS framework negates some of the benefits of IFRS Accounting Standards by reducing the comparability of annual financial statements produced in Montenegro, thereby obliging interested investors to study and understand the differences between IFRS and IFRS(M). Consideration should be given to either:

- \* Bringing IFRS(M) up to-date such that it aligns with IFRS Accounting Standards as issued by the IASB, or
- \* Clearly articulating the rationale for differentiating IFRS(M) from IFRS Accounting Standards, providing detailed principles to be applied in postponing the application of new or amended IFRSs, and providing a publicly available gap analysis that illustrates the differences. If Montenegro elects this approach, it should consider (1) distinguishing between postponements caused by translation issues and those selected to provide additional

time for local preparers to ready themselves, (2) making explicit to what extent early adoption is permitted by Montenegrin entities (for example can they early adopt all differences between IFRS and IFRS(M), or only those that have been translated); (3) setting out the principles for delaying the implementation of new standards and how the period of delay is established, (4) setting out the impacts of delaying some new standards but not others they interact with, and (5) defining how the principles set out apply to interpretations and agenda decisions issued by the IFRS Foundation.

**359. It is similarly recommended to either apply the current version of ISA as published by the IAASB or clearly articulate the process for keeping ISA(M) updated.** Consideration should be given to either:

- \* Bringing ISA(M) up to date such that it aligns with ISA as issued by the IAASB, or
- \* Clearly articulating the rationale for differentiating ISA(M) from ISA, providing detailed principles to be applied in postponing the application of new or amended ISAs, and providing a publicly available gap analysis that illustrates the differences. If Montenegro elects this approach, it should consider (1) distinguishing between postponements caused by translation issues and those selected to provide additional time for local preparers to ready themselves, (2) making explicit to what extent early adoption is permitted by auditors (for example can they early adopt all differences between ISA and ISA(M), or only those that have been translated); (3) setting out the principles for delaying the implementation of new standards and how the period of delay is established, and (4) setting out the impacts of delaying some new standards but not others they interact with.

**360. Develop or adopt simplified financial reporting standards for lower tiers of corporate entities (see paragraph 340 above).** Where international standards are adopted, for example the IFRS for SMEs standard, there should be a clearly articulated requirement for keeping the standard updated. Where a standard is developed locally, there should be a clear and transparent process for the development and maintenance of that standard.

# ANNEX

## IFRS/IAS Amendments with effective date prior to 2024 that have not been translated nor published in Montenegro as of December 31, 2023

**Table 22.** IFRS/IAS Amendments which effective date is prior to 2024 and that have not been translated nor published in Montenegro as of December 31, 2023

#	IFRS/IAS Amendment	Effective date	Note
1	IAS 1 amendments on classification	January 1, 2023	On January 23, 2020, the IASB issued "Classification of Liabilities as Current or Non-current (Amendments to IAS 1)" providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments were originally effective for annual reporting periods beginning on or after January 1, 2022, however, their effective date has been delayed to January 1, 2023.
2	IAS 12 amendments on deferred tax	January 1, 2023	On May 7, 2021, the IASB issued "Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)" that clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations. The amendments are effective for annual periods beginning on or after January 1, 2023.
3	IFRS 17 amendments	January 1, 2023	On June 25, 2020, the IASB issued "Amendments to IFRS 17" to address concerns and implementation challenges that were identified after IFRS 17 "Insurance Contracts" was published in 2017. The amendments are effective for annual periods beginning on or after January 1, 2023.

#	IFRS/IAS Amendment	Effective date	Note
4	Amendments on disclosure of accounting policies	January 1, 2023	On February 12, 2021, the IASB issued "Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)" with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments are effective for annual periods beginning on or after January 1, 2023.
5	IAS 8 amendments on accounting estimates	January 1, 2023	On February 12, 2021, the IASB issued "Definition of Accounting Estimates (Amendments to IAS 8)" to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual periods beginning on or after January 1, 2023.
6	IFRS 17	January 1, 2023	IFRS 17 "Insurance Contracts" was issued by the IASB on May 18, 2017, and is effective for periods beginning on or after January 1, 2023.
7	IAS 16 amendments regarding proceeds before intended use	January 1, 2022	On May 14, 2020, the IASB issued "Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)" regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. The amendments are effective for annual reporting periods beginning on or after January 1, 2022.
8	2018-2020 annual improvements cycle	January 1, 2022	On May 14, 2020, the IASB issued "Annual Improvements to IFRS Standards 2018-2020". The pronouncement contains amendments to four IFRSs as result of the IASB's annual improvements project. The amendments are effective for annual reporting periods beginning on or after January 1, 2022.
9	IAS 37 amendments regarding onerous contracts	January 1, 2022	On May 14, 2020, the IASB issued "Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)" amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendments are effective for annual reporting periods beginning on or after January 1, 2022.
10	Effective date of IFRS 3 amendments updating a reference to the Conceptual Framework		On May 14, 2020, the IASB issued "Reference to the Conceptual Framework (Amendments to IFRS 3)" with amendments to IFRS 3 "Business Combinations" that update an outdated reference in IFRS 3 without significantly changing its requirements. The amendments are effective for annual reporting periods beginning on or after January 1, 2022.

#	IFRS/IAS Amendment	Effective date	Note
11	IFRS 16 amendment	April 1, 2021	On March 31, 2021, the IASB published "Covid-19-Related Rent Concessions beyond June 30, 2021 (Amendment to IFRS 16)" that extends, by one year, the May 2020 amendment that provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. The amendment is effective for annual reporting periods beginning on or after April 1, 2021.
12	IBOR reform Phase 2 amendments	January 1, 2021	On August 27, 2020, the IASB issued "Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)" with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The amendments are effective for annual periods beginning on or after January 1, 2021.
13	IFRS 16 amendment	June 1, 2020	On May 28, 2020, the IASB published "COVID-19-Related Rent Concessions (Amendment to IFRS 16)" amending the standard to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. The amendment is effective for annual reporting periods beginning on or after June 1, 2020.
14	IBOR reform Phase 1 amendments	January 1, 2020	On September 26, 2019, the IASB issued "Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)" as a first reaction to the potential effects the IBOR reform could have on financial reporting. The amendments are effective for annual reporting periods beginning on or after January 1, 2020.
15	Effective date of new materiality definition	January 1, 2020	On October 31, 2018, the IASB issued "Definition of Material (Amendments to IAS 1 and IAS 8)" to clarify the definition of "material" and to align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective annual reporting periods beginning on or after January 1, 2020.
16	Updated references to the Conceptual Framework	January 1, 2020	Together with the revised "Conceptual Framework" published in March 2018, the IASB also issued "Amendments to References to the Conceptual Framework in IFRS Standards". The amendments are effective for annual periods beginning on or after January 1, 2020.
17	IFRS 3 amendments	January 1, 2020	On October 22, 2018, the IASB issued "Definition of a Business (Amendments to IFRS 3)" aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020.

