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## **THE LAW ON ACCOUNTING AND AUDITING OF THE FEDERATION OF BOSNIA AND HERZEGOVINA**

**Official Gazette of FBiH No 83/09**

### **I. GENERAL PROVISIONS**

#### **Article 1**

This Law regulates the field of accounting and auditing including attaining titles, qualifications and licensing in the accounting profession, organisation and functioning of the bookkeeping and accounting system, preparation and presentation of financial reports, auditing of financial reports, establishing of the Auditing Chamber of the Federation of Bosnia and Herzegovina (hereafter: the Chamber) and establishing a quality assurance review system for audit firms and public oversight.

#### **Article 2**

Terms used in this Law shall have the meaning as follows:

Accounting is a system providing information on the financial status, level of success, cash flows, changes in equity, and other financial and non-financial information that are of importance for external and internal users of financial reports;

Bookkeeping is a system that includes recording, classification and recapitulation of business transactions, as well as safekeeping of original business documentation providing evidence on these transactions;

Audit(ing) of financial reports is an investigation of financial reports in order to provide an opinion regarding their objectivity and authenticity, based on all substantively significant questions, in showing the status of assets, capital and liabilities, business results, cash flows and changes in equity in accordance with International Accounting Standards and International Financial Reporting Standards;

The Accounting and Auditing Commission of Bosnia and Herzegovina (hereafter: Commission), is a body established in accordance with the Accounting and Auditing Law of Bosnia and Herzegovina ("Official Gazette of BiH" no. 42/04); Certified accounting technician is a person holding a certificate issued by the professional body in accordance with Article 5 of this Law;

Certified accountant is a person holding a certificate issued by the professional body in accordance with Article 5 of this Law;

Statutory auditor is a person holding a license issued by the Federation Ministry of Finance (hereafter: the Ministry), upon being issued with a certificate by a professional body in accordance with Article 5 of this Law;

Accounting standards and auditing standards are standards, accompanying instructions, explanations, guidelines and principles of professional ethics under Article 33 of this Law that were published by the Commission as mandatory for the entire accounting profession in the Federation of Bosnia and Herzegovina (hereafter: the Federation), Republika Srpska and Brčko District of Bosnia and Herzegovina (hereafter: Brčko District); Professional bodies are non-governmental, voluntary professional associations in the Federation accepted by the Commission, in accordance with Article 11 of the Accounting and Auditing Law of Bosnia and Herzegovina;

Certificate is a public document proving that the holder passed the exams and acquired the appropriate professional knowledge;

License is a public document serving as a work permit for a private person or a company issued to in accordance with this Law and International Education Standards;

Register of financial reports is a central source of information about profitability and financial position and performance of legal persons in the Federation, set up by the competent institution in accordance with the legislation.

### **Article 3**

Provisions of this Law shall be applied to all business companies, including insurance companies, microcredit companies, leasing companies, investment funds, companies managing investment funds, broker-dealers, stock exchanges and banks, other financial organisations, cooperatives, other profit and non-profit legal persons with head office registered in the Federation.

Provisions of this Law shall also apply to legal persons and other forms of organisation that legal persons with main office registered in the Federation established abroad, if the country in question does not impose any obligation to keep financial records and produce financial reports.

Provisions of this Law shall apply to organisational units and plants of legal persons with main office registered outside the Federation, if the organisational units and plants are liable to profit tax in the Federation. Provisions of this Law shall also apply to beneficiaries of the budget of the Federation, budgets of cantons, budgets of municipalities and cities and extra-budgetary funds.

### **Article 4**

For the purpose of this Law, legal persons shall be classified as small, medium and large legal persons depending on the indicators determined on the day of creation of financial reports in a fiscal year according to the following criteria:

- amount of income,

- value of business assets,
- average number of employees for the year of the financial report.

Small legal persons are legal persons that meet at least two of the following criteria:  
average number of employees is below 50,

average value of business assets at the end of business year is less than BAM 1,000,000,  
total annual income is less than BAM 2,000,000.

Medium legal persons are legal persons that, on the day of creation of financial reports,  
meet at least two of the following criteria:

- average number of employees in the year of financial report is between 50 and 250, average value of business assets at the end of the business year is between BAM 1,000,000 and 4,000,000,
- total annual income is between BAM 2,000,000 and 8,000,000.

The medium legal persons also include the ones whose value is higher than the threshold  
of one of the requirements under paragraph 3 of this Article.

Large legal persons are legal persons with values higher than the thresholds defined in at  
least two criteria referred to in paragraph 3 of this Article.

Apart from the legal persons under paragraph 5 of this Article, banks, microcredit  
companies, savings and loans cooperative ventures, insurance companies, leasing  
companies, companies managing investment funds, companies managing mandatory or  
voluntary pension funds, stock exchanges, brokerage and dealership companies, and  
other financial organisations are classified as large legal persons.

On the day of creation of financial reports, legal persons shall autonomously conduct  
classification in line with the above stated criteria and use the resulting data as a basis  
for the next business year.

Newly established legal persons shall be classified based on the data contained in  
financial reports for the current business year, in proportion with the number of months  
of business activity, and such data are then used for the current and next business year.

The average value of business assets shall be calculated by dividing the net sum of the  
book value of business assets at the beginning and at the end of the accounting period  
with number two, and average number of employees by dividing the total number of  
employees at the end of each month, including employees outside the territory of  
Federation, with a number of months included in the accounting period.

Reporting on classification of legal person into category of small, medium or large legal  
persons, conducted in line with provisions of this Law, shall be delivered by the legal  
person to the authorized institution under Article 44 of this Law along with annual  
financial reports.

## **II. TITLES AND QUALIFICATIONS**

### **Article 5**

This Law determines the following titles in accounting and auditing profession of the Federation:

- 1) Certified Accounting Technician,
- 2) Certified Accountant,
- 3) Statutory Auditor.

Testing of candidates for titles under paragraph 1 of this Article, issuing of certificates to successful candidates and licensing (issuing of work permits) shall be carried out by the following bodies:

1. Candidates for Certified Accounting Technicians, Certified Accountants and Statutory Auditors shall be tested by the Commission. Testing of candidates shall be based on a unique program for the Federation, the Republika Srpska and the District, as defined by the Law on Accounting and Auditing of Bosnia and Herzegovina, which is entirely in accordance with the standards and guidelines of the International Federation of Accountants (hereinafter: IFAC). The Commission may delegate activities related to administering the test to one or more professional bodies, with the Commission closely monitoring the implementation of these activities;
2. Certificates for Certified Accounting Technicians, Certified Accountants and Statutory Auditors shall be issued by a professional body under supervision of the Commission;
3. Licenses for Certified Accounting Technicians and Certified Accountants who provide independent accounting services to third parties shall be issued by a professional body
4. Licenses for audit firms shall be issued by the Ministry;
5. Licenses for Statutory Auditors shall be issued by the Ministry.

Exceptionally, the title of Statutory Auditor shall be conferred without prior testing, at their request, to the following: Doctor or Master of Economic Science in accounting, auditing and business analysis, who holds the relevant academic title, or Master of Economic Sciences, who holds the title of Certified Accountant and practical experience of five years in accounting and finance.

In connection with points 4 and 5 of paragraph 2 of this Article, the Ministry is responsible for supervision in the field of accounting and auditing profession, which is engaged in providing expert services to the public.

Licensing is not required for certified accounting technicians and certified accountants who perform accounting duties for the internal needs of businesses and other legal persons.

The financial statement audit in the Federation shall be performed only by persons who possess the appropriate license issued in the Federation in accordance with this Law. Audit reports shall be provided only by audit firms that hold licenses issued in the Federation in accordance with this Law.

Acquiring, qualification, recognition and validation of qualifications

## **Article 6**

In the accounting and auditing profession the Federation shall apply a unique program for acquiring of titles and qualifications valid in entire Bosnia and Herzegovina (hereafter: the Programme).

The Programme shall be determined by the Commission in accordance with IFAC standards and guidelines and it shall implement it in cooperation with professional bodies.

Persons who join the accounting and auditing profession under Article 5 Paragraph 1 of this Law may acquire statutory titles only if they fulfil requirements as determined by the Commission.

New candidates for the professional titles under Article 5(1) of this Law shall fulfil educational, practical experience, training and examination requirements as determined by the Commission.

## **Article 7**

A professional body defined by this Law, in cooperation with the Accounting and Auditing Commission of BiH, shall implement a unique programme for acquiring of titles and qualifications in the accounting and auditing profession in the Federation. The professional body shall be obliged to adopt regulations defining conditions, method and fees for acquiring of titles in accounting and auditing profession, qualifying and professional development of accountants and statutory auditors, permanent training, quality assurance reviews of its members, and issuing of certificates for all titles in the profession, as well as licences for titles in the field of accounting.

Upon obtained opinion from the Ministry, the Government of the Federation of Bosnia and Herzegovina (hereafter: the Federation Government) shall issue its approval to the regulations defining conditions, method and fees under paragraph 2 of this Article.

Professional bodies are responsible for establishing and implementing permanent professional training of their members in accordance with international educational standards, and keeping records on the basis of which it proves that they fulfil requirements and criteria for permanent training as determined by the Commission. Professional bodies in accounting and auditing profession which are registered in the Federation shall cooperate with the Commission on all matters governed by this Law. Competences of professional bodies shall be as follows:

implementing the program for the national qualification, implementing permanent training keeping records and issuing certificates of attendance at a minimal number of hours of permanent training in the accounting profession necessary for the renewal / extension of the license by holders of professional titles defined by this law, governing the qualifications and professional development in accounting and auditing profession and checking qualifications of the members, giving expert opinions to its members and, at a request, to third parties regarding the practical application of International Accounting Standards.

### **Article 8**

The service of training of candidates for the accounting profession in accordance with the Program can be provided by any legal person, professional body or educational institution from Bosnia and Herzegovina, which meets the requirements determined by the Commission. Upon completion of the training, the organizer of the training shall issue to the participants a certificate of attendance, which includes information on the number of hours and program of the training. Attending the courses of training is not mandatory for candidates, but taking the exam is obligatory for certification.

### **Article 9**

Any person to whom a certificate or license was issued in the other Entity or Brcko District shall be entitled to perform these activities in the Federation, provided that the Entity or District adopted a law or regulation which provides equivalent recognition of certificates and licenses issued in the Federation.

Persons and companies that possess a certificate and license in accordance with the requirements of the Law on Accounting and Auditing of Bosnia and Herzegovina, the Republika Srpska and the Brcko District shall be considered to be qualified to obtain the appropriate license in the Federation and to perform audits in the entire territory of Bosnia and Herzegovina without requiring additional examinations, training or experience. Such a person or company shall file to the Ministry a request for licence with a proof that they meet the requirements defined by this Law.

### **Article 10**

Persons who possess a certificate issued by authorized bodies (i.e. associations) outside the territory of Bosnia and Herzegovina may seek recognition of qualifications, after proving that they meet requirements of IFAC in the country where they acquired the qualifications as well as to have the required level of education, work experience, knowledge of legislation and tax systems of the Federation.

Recognition of qualifications shall be performed by a professional body meeting requirements and following procedures prescribed by the Commission.

Foreign documents shall be recognized after checking the applicant's knowledge of local legislation required to perform audits and / or accounting. Knowledge shall cover the legislation applicable to areas identified in a decision of the Commission, and testing shall be made in one of the official languages of the Federation.

### **III. SYSTEM OF ACCOUNTING AND BOOKKEEPING**

#### **The organisation and functioning of accounting system**

##### **Article 11**

Pursuant to their by-law, legal persons shall define organisation of the bookkeeping in a way that ensures comprehensive records keeping, and also detecting and prevention of falsely recorded business events, regulate internal accounting control procedures, determine accounting policies, determine persons responsible for legality and accuracy of occurrence of business events, as well as creation and control of accounting documents related to such events, determine flow of accounting documents and define deadlines for their submission for further processing, determine procedures for preparation, compiling and presentation of financial reports, prescribe procedures for collecting, processing and presentation of data related to preparation and creation of annual reports on performance, and financial data for statistical, taxation and other purposes, and regulate other issues of importance for establishing efficient bookkeeping and accounting system in the legal person. The bookkeeping system shall be based on the principle of correct, true, reliable, comprehensive, timely and individual recording of business operations and International Accounting Standards (hereafter: IAS).

##### **Article 12**

All legal persons covered by this Law that carry out economic activity in the Federation, are obliged to keep account books and records that provide sufficient, adequate and complete evidence of their transactions.

Responsibility for financial reports of the legal person shall be held by the person authorised to represent the legal person.

The person referred to in paragraph 2 of this Article shall ensure entering of accounting and bookkeeping records in account books based solely on the documentation produced for the particular transaction.

##### **Article 13**

Legal persons shall adopt a by-law on organization of accounting information system to determine the way of receipt, formation, movement, disposal and storage of documents as well as of procedures, methods and techniques of keeping account books (bookkeeping), the form of books themselves, the components of account books, relevant deadlines for entering certain types of data (bookkeeping), updating of bookkeeping, disposal and storage of account books, inventory lists and deadlines, and the calculation method of calculating depreciation, the method and terms of financial reporting, as well as other procedures and methods which are necessary for a reliable and fair presentation of financial statements.

## **Accounting documents**

### **Article 14**

An accounting document shall be written evidence or electronically stored record of a business event, which was signed by the person authorized for the preparation and control of accounting documents, and serves as a basis for entering in the ledgers.

An accounting document shall be a document transmitted by facsimile, a photocopy of original document or an electronic document if it states the place of storage of the original document/reasons for the use of copy, and if it is signed by the responsible person or a person authorized to do so.

### **Article 15**

The content of the accounting document must clearly and credibly demonstrate the nature and extent of changes (purchase, quantity, price, total amount), the character of an accounting change in accounting and technical terms (buying for cash or on credit), technical characteristics (date of purchase, due date etc.) with the possibility of timely oversight.

An accounting document shall be deemed any credible accounting document based on which a third parties that did not participate in a business event can determine the nature and scope of the transaction definitely without any doubt.

By signing an accounting document a person responsible or authorized to represent the legal person shall guarantee that it is authentic and correct.

## **Preparation of accounting documents**

### **Article 16**

Accounting documents shall be drawn up for an event having occurred and relating to the business of legal person and having reflected into a change in the accounts of assets, liabilities, equity, revenues and expenditures.

Accounting documents can be of external and internal nature and are prepared in the required number of copies.

External accounting documents are those that have been received by the legal person from outside, in business relationships with third parties that have drawn them up (invoices, statements of cash changes in bank accounts, notices of granting cash discounts, reports on the calculated interest, bills of lading, insurance documents, dispatch documents, delivery tickets etc.).

Internal accounting documents are drawn up within the legal person and are used for documenting all changes in assets and liabilities according to the sources of funds (receiver documents, dispatch documents, records, inventory lists, documents on the return, write-off, depreciation and changes in price, orders for cash collection and payment, payrolls, requisition slips for materials, semi-finished products, products, tools etc.).



Instead of signature of responsible or authorized person to represent the legal person, accounting documents prepared as an electronic record may contain the name or other distinctive mark of the person authorized to issue the accounting document or shall be signed in accordance with the Law on Electronic Signature ("Official Gazette of BiH ", No. 91/06).

Persons who draw up and receive accounting documents shall transmit any signed document and other documentation in connection with a business change immediately after drawing up or receipt thereof or within three days of the business change occurrence or receipt thereof at the latest.

## **Control of accounting documents**

### **Article 17**

Before entering in account books any accounting document shall be controlled in terms of formal, substantive and computation correctness and certified by authorized persons in the legal person.

Control of the formal validity of accounting document shall be based on whether the document has been prepared in accordance with the regulations, IAS and by-laws of the legal person.

Substantial control of accounting document shall establish the essential validity of the document, which consists of inspection whether the business change actually incurred to the extent as indicated.

Control of the computational accuracy of accounting documents shall involve computational inspection of mathematical operations of division, multiplication, addition and subtraction, based on which results were obtained on a document.

Invalid documents shall be returned to the appropriate person/department in order to eliminate deficiencies.

### **Article 18**

Corrections in the text or numbers in the accounting documents shall not be done in a way that cast doubt on the credibility of accounting document.

A correction shall be done with a strikethrough by the person who issued the accounting document and who shall also make the correction on all copies of the accounting document issued, certifying it by his signature and affixing the date of making the correction.

Financial accounting documents shall make an exception and shall not be corrected but cancelled and new ones shall be issued.

## **Article 19**

A properly disposed of and approved accounting document shall be forwarded to the accounting department where, based on it, an order for its entry shall be issued and the information shall be entered in the books applying the accounting method.

After inspection of accounting documents received, persons who keep account books shall be obligated to record accounting documents in the account books next day or within eight days of receipt of accounting documents at the latest.

## **Account books**

### **Article 20**

Account books shall be uniform records on the status of and changes in assets, liabilities and equity, as well as realised incomes and expenditures.

Account books shall be kept for a business year and are the basis for annual and semi-annual financial statements.

Account books shall be kept based on the double-entry bookkeeping system, respecting the principles of neatness, real-time processing, document content and credibility. Account books may be kept on loose sheets, in bound form or transferred to some of the electronic media, so that they can then be printed or displayed on the screen, as required. Account books shall be: journal, general ledger and subsidiary ledgers.

A journal shall be a business record for entering of business events occurring during the accounting period, in chronological order, according to the time of occurrence. A journal can be established as a unique account book or several books that are designed to record changes in separate groups of balance or off- balance sheet items.

### **Article 21**

Transactions shall be recorded on the analytical accounts whose contents and belonging to balance sheet correspond to the statutory framework chart of accounts.

The framework chart of accounts and contents of the accounts in the Chart for legal persons shall be prescribed by the Minister of Finance (hereinafter: Minister).

A detailed chart of accounts shall be prescribed by a by-law of legal person and shall be compliant with the statutory framework chart of accounts.

A general ledger is a set of all accounts that were opened during the fiscal year. The general ledger shall include pre-prepared accounts that, in accordance with the needs of the legal person, provide information for annual financial statements.

General Ledger consists of two separate parts: balance sheet records and off-balance sheet records. The subject of bookkeeping processing in the general ledger with regard to balance sheet records shall be business events that have the following characteristics: impact of business events can be expressed in monetary terms, changes made by

business events affect the items of assets, liabilities, equity, costs, expenses, revenues and profit/loss, the occurrence of business event can be proved by credible accounting document. General ledger off-balance sheet records shall include certain business events that did not affect changes in the balance sheet and income statement, but provide additional information about using other people's property, future contingent liabilities, the control of individual business enterprises and informing.

When applying the methods of electronic data processing, the general ledger must be organized so that control of bookkeeping can be performed.

## **Article 22**

As a rule, subsidiary ledgers shall be kept separately.

In the subsidiary ledgers in which records of tangible property are kept, assets shall be measured in quantities and monetary amounts.

Other subsidiary ledgers that complement the information on items in the general ledger or provide any other details shall be as follows: a cash book (journal), a book of incoming invoices, a book of outgoing invoices, a book of foreign exchange, a book of checks issued, a book of promissory notes payable, a stock register, a stake register etc.

Cash transactions that occur on the basis of cash and other valuables that are kept in the cashier's office of the legal person shall be entered in the cash journal. The cash journal shall be closed at the end of each working day and delivered to the accounting department the same day and no later than the following day.

## **Keeping the account books**

### **Article 23**

The information shall be entered in account books on the principle of occurrence of business events, and based on credible accounting documents.

Account books shall be opened at the beginning of the business year on the basis of the previous year's balance sheet or opening balance sheet of newly established legal persons on the date of acquiring the status of legal person and making status changes in accordance with Article 36 of this Law.

Those items that are not found in the opening balance sheet shall be introduced in the ledgers during the year when a business event occurs, based on credible accounting document.

Account books shall be kept so as to ensure: control of the information, accuracy of data entry, data storage, use of data, possibility to view the sales turnover situation and the general ledger accounts, an insight into the time occurrence of completion of entries of business events.

Subsequent correction of the entered data shall be made as a new accounting item so that it affects the change stemming from the differences with previous data.

Business events occurring between the balance sheet date and the date of registration in the register shall be included in the account books of the previous legal person or the new legal person, which is determined by a decision on the status change.

#### **Article 24**

A by-law of the legal person shall set forth the requirements that the person who keeps account books, prepares financial reports and who is a co-signatory of the financial statements in accordance with Article 37 of this Law shall meet in terms of academic qualifications, work experience and other requirements, as well as its responsibility for real-time processing, neatness and authenticity of account books.

A legal person may entrust bookkeeping for a fee to a contractor such as other legal person or entrepreneur registered to provide accounting services, which has employed persons to keep account books provided that archiving and retention of documents are ensured at its head office.

Paragraph 2 of this Law does not apply to banks and other financial organizations, insurance companies, providers of financial leasing, pension funds, open funds for corporate investment banking, stock exchanges and broker - dealer companies.

### **An inventory of assets and liabilities**

#### **Article 25**

At the beginning of business activity but also at least once a year a legal person shall use the balance of the last day of the business year or some other accounting period in line with this Law and make an inventory of assets and liabilities in order to determine the actual balance, and to harmonise the balance recorded in account books with actual balance.

Legal persons under Article 3 of this Law as well as legal persons and parts of legal persons engaged in activities abroad, if the foreign regulations for legal persons and their parts do not prescribe the obligation of keeping separate accounting, as well as submitting and auditing of annual financial statements, shall make inventories of assets and liabilities at least once in a year and not later than the end of the current fiscal year.

A legal person in which there are borrowed assets shall make a separate inventory for each legal person to whom the property belongs and send them a copy of the inventory list on which these funds are listed. The legal persons whose assets are shall include these inventory lists in their inventory documentation.

An inventory of assets and liabilities shall be made during a fiscal year in the following cases: changes in prices of products and goods, status changes in accordance with the Law on Business Companies (Official Gazette of Federation BiH ", no. 23/99, 45/00, 2 / 02, 6 / 02, 29/03, 68/05, 91/07, 84/08 and 7 / 09) - merger, acquisition or division - opening of bankruptcy or liquidation procedure being initiated.

In these cases, the inventory shall be carried out under the date of status or other changes. Legal persons that are subject to status or other changes shall make financial statements for the period from 1 January to the date of status change or other changes.

The inventory shall be made during a year due to transfer of duty and does not relieve the legal person from the obligation to make an inventory of assets and liabilities on 31 December of the current year.

Legal persons in the process of bankruptcy or liquidation are not obliged to make an inventory on 31 December. These legal persons shall conducted inventory of assets and liabilities on the date of opening the bankruptcy proceedings or liquidation procedure being initiated.

Exceptionally, a legal person can provide for longer periods of making an inventory of assets in libraries, such as books, photographs, films, archived materials etc., provided that these periods cannot be longer than five years.

## **Article 26**

A by-law and the Decision on Inventory shall determine the procedure for making an inventory of assets and liabilities (appointment of the Commission, manner and terms of making the inventory, the manner to adjust the book value to the actual situation).

In order to make an inventory of assets and liabilities, a legal person shall appoint a commission for inventory. In determining the composition of commission it should take into account that persons who are physically or financially responsible for the assets that are listed and their immediate superiors may not be appointed to the Commission for inventory of these assets.

When an inventory of assets and liabilities is made before 31 December the Commission for inventory shall enter subsequently into the inventory lists the information about the changes that have occurred between the date of making inventory and 31 December of the current year on the basis of accounting documents and making adjustments and crosscheck of books and actual situation on 31 December of the current year inclusive. The information from the books shall be entered in the inventory lists not by people working in the accounting department but the Commission for inventory.

At the end of the inventory making, the Commission for inventory shall draft a report on the inventory made, identifying surpluses and deficits, and submit it for consideration to the body responsible to consider the results of inventory made and to decide on the inventory no later than 15 days after the expiration of the fiscal year.

## **Calculation of depreciation**

### **Article 27**

At the end of the financial year the final calculation of depreciation shall be prepared.

The preparation of the final calculation of depreciation shall be based on the actual state as determined on the basis of inventory list.

Fixed assets shall be written off systematically applying annual depreciation rates resulting from the estimated useful life of fixed assets or using depreciation quotas (annual depreciation) determined on the basis of the planned use of fixed assets.

A legal person is entitled to accelerate depreciation of fixed assets under the conditions set forth in the legislation governing the profit tax.

## **Reconciliation of receivables and liabilities**

### **Article 28**

Before making the financial statements legal persons shall reconcile mutual receivables and liabilities as evidenced by appropriate accounting documents.

Before making the financial statements a creditor shall provide a debtor with a list of unpaid bills.

Before making the financial statements the current liabilities and receivables shall be reconciled (balance confirmation). Accounting data of legal persons that will be entered and confirmed with proper accounting document – a form of statement of outstanding bills shall be used as evidence of the existence of certain balance of assets and liabilities. A confirmation recipient shall respond to the confirmation and reply to the sender: debtor, creditor or its auditor within eight days.

The balance of receivables and liabilities shall be determined on 31 December of the current year.

Legal persons shall produce notes to explain the individual situation of bad and stale debts and plan activities and the manner to solve them.

## **Closing of account books and determining the financial results**

### **Article 29**

Account books shall be closed after entering all business changes and computations at the end of the fiscal year no later than the deadline for submission of financial statements as well as in cases of status changes, dissolution and other cases in which it is necessary to close the account books.

Subsidiary ledgers that have been used for more than one year shall be concluded by the termination of their use, except the inventory book, which shall be closed with the alienation of the assets.

If the books are kept as electronic records, the general ledger shall be protected after the closure at the end of the financial year in a way that no modification of some or all of its parts or sheets can be made, it being printable at any time and signed with electronic signature in accordance with the Law on Electronic Signature or shall be printed on paper and bound in a way that is not possible to modify some or all of its parts or sheets and shall be signed and certified by a person authorized to represent the legal person and eventually archived.

### **Article 30**

At the end of financial year account books shall be closed, then on the basis of the account books the state of assets, liabilities, capital and financial results with revenues and expenditures for the accounting period to which this result applies shall be established.

A legal person shall distribute the profit or loss in accordance with the provisions of the Law on Business Companies and this Law, its own by-law and decisions of the competent authority.

Method and time limits of accounting documents, business records, reports and other documentation

### **Article 31**

Accounting documents shall be retained in the original physical form, in the form of electronic records or on microfilm, and are evidential basis of account books. Accounting documents shall be stored in folders and binders after the annual accounts and audit and then surrendered to the central archive of legal person, with an official record being taken.

Accounting documents, account books and financial reports shall be kept in the premises of the legal person/another legal person entrusted with bookkeeping.

If the books are kept electronically, along with memorized data, memorizing of the application software shall be ensured so as to make the data available for control. At the institution of liquidation or bankruptcy proceedings, accounting and financial records shall be surrendered to the liquidation or bankruptcy receiver, with an official record being taken.

The documents that are retained permanently are: payrolls or analytical records of pays in connection with the payment of contributions, sales contracts under which the acquisition of property was made, the annual statements of accounts, financial statements, consolidated financial statements, audit reports and all internal documents affecting financial performance.

Accounting documents on the basis of which the data were entered into the journal and ledger shall be retained for at least eleven years.

Accounting documents on the basis of which the data entered in the subsidiary ledgers shall be retained for at least seven years.

### **Article 32**

The general ledger and journal shall be retained for at least eleven years and subsidiary ledgers for at least seven years.

Periodic balance sheets, documents on payments through authorized financial institutions shall be retained for at least five years.

Annual reports shall be retained in their original form eleven years after the expiration of the fiscal year.

Subsidiary calculations, sales and control blocks etc. shall be retained for two years. Audit firms shall retain the documentation on the basis of which an audit was performed for six years.

A deadline for retention of accounting documents and account books shall start on the last day of the fiscal year to which the account books and data from documents entered into it relate.

## **IV. FINANCIAL REPORTS**

### **Standards and rules**

#### **Article 33**

Accounting standards of financial reporting shall be principles and rules for preparing and presenting financial reports required from all legal persons under Articles 3 and 4 of this Law and shall include:

1. IAS and International Financial Reporting Standards (hereinafter: IFRS)
2. International Accounting Standards for Public Sector (hereinafter: IASPS),
3. Accompanying instructions, explanations and guidelines issued by the International Accounting Standards Board (hereinafter: IASB),
4. International Accounting Standards for small and medium enterprises published by IASB.

Notwithstanding paragraph 1 of this article and till publication of IASPS, budget users and extra-budgetary funds shall apply special regulations for budget users and extra-budgetary funds in the field of accounting and auditing in the public sector of the Federation.



### **Article 34**

Auditing standards and principles of professional ethics of professional accountants and auditors to be applied throughout the Federation shall be:

International Standards on Auditing (hereafter: ISA), issued by the IFAC, Code of Ethics for Professional Accountants issued by IFAC,

All the instructions, explanations and guidelines issued by IFAC.

## **Financial Reports**

### **Article 35**

A legal person shall compile and present public financial reports for the business year in the period between 1 January and 31 December of the current year with parallel data on the previous year.

Exceptionally, with the approval from the minister, a legal person that is a subsidiary of a parent company with head office located abroad that has the business year different from the calendar year may compile and present financial reports for the period different from the period referred to in Paragraph 1 of this Article.

A legal person that went through the process of status change shall compile its financial reports on the day of that status change.

Business changes occurring between the dates of balance sheet and entering into the court register shall be recorded in account books of the previous legal person or new legal person, which is determined in the decision on status change.

Financial reports shall be compiled also in case of initiating, or termination of bankruptcy procedure, that is, liquidation procedure of a legal person.

### **Article 36**

Annual financial reports shall include:

Balance sheet – Report on financial situation at the end of a period, Income statement – Report on total result for that period,

Cash flow statement – Report on cash flows, Statement on changes in equity and Notes to financial reports.

As an exception to provisions of paragraph 1 of this Article, small legal persons shall present their annual reports through:

Balance sheet – Report on financial status at the end of a period and Income statement – Report on total result for that period.

Together with the annual financial reports, users of financial reports shall also be presented with a special report made in accordance with a request from Federation Institute of Statistics.

### **Article 37**

Responsibility for financial reports of the legal person shall lie with the person authorised to represent the legal person, registered in the court register.

Financial reports of the legal person, including the ones printed from a computer shall be signed and stamped by a certified accountant who has the title of "certified accountant," his name, and the number of valid license, except for certified accountants under Article 5(6) this Law. At the same time the financial reports shall be signed by the person authorised to represent the legal person recorded in the court register who files the financial reports that are stamped with the stamp of the legal person filing the financial reports.

### **Article 38**

Legal persons classified as large and medium shall compile and present semi-annual financial reports, that is, financial reports prepared for the accounting period from 1 January to 30 June.

Regardless of the category they belong to, according to provisions of Article 5 of this Law, legal persons having their securities traded on capital markets or under preparation to be released into these markets, shall compile and present semi-annual financial reports if such obligation is provided for in the legislation respecting securities.

A semi-annual financial report shall include:

Balance sheet – Report on financial position at the end of a period, Income statement – Report on total result for the period,

Cash flow balance – Report on cash flows, Statement on changes in equity, and

Notes to financial reports, made in line with International Accounting Standard 1 – Presentation of Financial Reports or International Accounting Standard 34 – Periodical Financial Reports.

### **Article 39**

The Minister shall define contents and form of financial reports that are prepared and presented in line with this Law.

Legal persons that keep books by the means of automatic data processing may submit financial reports on a statutory form printed on computer provided that it submits identical information in an electronic medium together with such forms. Account books, financial statements and other financial information presented by the person to whom the

provisions of this Law apply shall be expressed in monetary unit and in the languages officially used in the Federation.

## **Annual business reports**

### **Article 40**

Legal persons shall prepare annual reports on their business operations showing an objective review of business operations of the legal person and its financial position, including description of main risks and threats they face, and measures undertaken to protect the environment.

An annual report on business operations shall contain:

- all important events that occurred from the end of business year until the day of delivery of financial report,
- evaluation of the expected future development of the legal person, the most important activities related to research and development, information on buy-off of equity stocks and shares,
- information on business segments of the legal person,
- financial instruments used, if of importance for evaluation of financial position resulting from business operations and financial performance of the legal person,
- goals and policies of the legal person regarding financial risks; as well as risk protection policies for each planned transaction that requires protection and,
- exposure of the legal person to price risk, credit risk, market risk, solvency-related currency risk and other risks affecting business activity of the legal person.

### **Article 41**

Annual reports on business operations of large legal persons and legal persons having their securities traded on a regulated securities market shall also contain a review of applied rules of corporate management.

As an exception to provisions of Paragraph 1 of this Article, small legal persons are not obliged to prepare an annual report on business operations; they shall indicate the information about the purchase of own shares in notes to financial statements.

## **Consolidated financial report**

### **Article 42**

In accordance with the Law on Business Companies, a group of linked legal persons that form one legal person shall compile consolidated annual financial statements.

The consolidated financial statement shall be a financial statement of a group of legal persons connected so that they make an economic unit in which there are separate internal relations between these persons based on equity, assets and liabilities, revenues

and expenses where a certain person (the parent) has the right to govern the financial and business policies.

### **Article 43**

In preparing the consolidated financial statements legal persons shall abide by the rules and procedures of the annual consolidated financial statements, which are regulated by IAS and IFRS.

The obligation to produce consolidated financial statements shall arise in the first month after the month in which the linked legal person's status was gained.

The obligation to produce consolidated financial statements shall cease at the end of the month in which the linked legal person's status ceased to exist.

The legal person in the group that is a parent company shall prepare consolidated financial statements and submit them to the authorized institution under Article 44 of this law. The consolidated financial statements shall be made once a year, showing the state of business results at the end of the year.

### **Filing of semi-annual and annual financial reports and business annual reports**

#### **Article 44**

Semi-annual financial reports under Article 38 and annual financial reports under Article 36 and annual reports on business activity under Article 40 of this Law shall be submitted to the authorized institution, founded by a special law, which carries out the control and processes financial statements, and keeps the Unified Register of financial statements. The semi-annual financial reports shall be submitted no later than 31 July of the current year.

The annual financial report and the annual business report shall be submitted not later than last day of February of the current year, for the previous year.

Legal persons that prepare and present consolidated financial reports under Article 42 of this Law shall submit these reports not later than the last day of April of the current year for the previous year.

The deadline for filing an audit report accompanied by financial statements that were subject to auditing shall be the end of the current year for the previous year.

A legal person shall submit, along with the reports, the decision on establishing the annual financial statements by the competent authority and a decision on the proposal of distribution of profits or covering of loss. A legal person who prepares financial statements in accordance with Article 35 of this Law shall submit annual financial reports within 60 days from the date of a status change, initiation of the bankruptcy or liquidation procedure and for other business years within 120 days from the date of expiry of the fiscal year.

Exceptionally, legal persons which were registered in the current financial year and which, after registration, until 31 December of the current financial year, had no other changes in their account except the payment of compulsory deposits, shall not submit the financial statements, noting that such persons shall inform the authorized institution referred to in paragraph 1 this Article of these facts by filing the Statement of inactivity for the previous financial year by the end of February of the current year.

#### **Article 45**

The authorized institution shall process the data taken from financial reports referred to in Article 44 of this Law in a way appropriate for evaluation of property, income and financial aspects of legal persons.

Data referred to in Paragraph 1 of this Article shall be public and available to all legal and natural persons.

Data referred to in Paragraph 1 of this Article shall be sent to the Ministry within 60 days upon expiry of deadlines for submission of financial reports, defined in Article 44 of this Law.

At the same time, the authorized institution shall send data on legal persons who failed to act in accordance with provisions of Article 44 of this Law.

#### **Oversight**

#### **Article 46**

The Tax Administration of the Federation of Bosnia and Herzegovina (hereinafter: the Tax Administration) is authorized to oversee any legal person's operations for the purposes of checking whether the activities of relevance for the organization and functioning of the accounting and auditing system are performed in accordance with the provisions of this and other relevant laws and by-laws thereof, not being authorized to oversee the application of IAS and IFRS. Oversight shall also be exercised by other authorities if they are authorized to oversee activities of individual legal persons to which provisions of this Law apply.

Oversight shall also be exercised by authorized persons of the Tax Administration in the following manner:

- monitoring, collecting accounting documents, account books, annual financial statements and tax returns and statistical reports (analysis of financial statements),
- checking the system which the taxpayer applies to processing data related to accounting operations and
- direct supervision at the taxpayer's.

## **Article 47**

At the end of the procedure of supervision the Tax Administration may take the following measures:

- make a decision ordering the elimination of irregularities and file misdemeanour or criminal charges.

The legal person subject to this Law where an oversight is performed may file an appeal with the Ministry against a decision under paragraph 1(1) of this Article, within 15 days of receipt of the decision. The Ministry shall decide on the appeal within 15 days of receipt of the appeal. The appeal shall stay the execution of decision. An administrative dispute may be instituted against the decision of appellate authority by filing a complaint with the Supreme Court of the Federation of Bosnia and Herzegovina.

## **Article 48**

A legal person shall enable the authorized person to exercise oversight of all accounting documents, ledgers, annual financial statements and other fiscal and statistical reports and systems used for data processing.

At the request of the Tax Administration a legal person shall submit copies of documents or financial statements under paragraph 1 of this Article.

A legal person shall provide authorized persons with adequate rooms in which they can freely and without the presence of other persons inspect accounting operations.

At the request of an authorized person, persons authorized to represent a legal person and employees who perform accounting tasks shall produce all accounting documents, ledgers, annual financial statements, tax returns and statistical reports and other information on accounting jobs essential to conduct oversight and compile a written report or respond and provide oral testimony if required by Tax Administration

## **V. FINANCIAL STATEMENTS AUDITING**

### **Auditing**

## **Article 49**

Auditing is a procedure of checking and evaluating financial statements, information and methods used in compiling financial statements, on the basis of which a professional and independent opinion shall be given on whether the financial statements express truly and objectively the financial situation, business results and cash flows of a legal person, in accordance with the International Accounting Standards, or International Financial Reporting Standards and other regulations in the Federation in order to protect the public interest in a public presentation of financial statements.

An audit of financial statements shall be performed in accordance with the law and ISA with respect for the Code of Professional Ethics for auditors and rules of the auditing profession, and other rules and regulations governing this area.

The financial statements and consolidated financial statements of legal persons classified as large and middle-sized, and financial statements of legal persons whose securities are marketed or in preparation for their emission in organized securities market shall also be subject to obligatory auditing.

Financial statements of legal persons shall also be subject to the obligatory auditing if it has been prescribed by their particular regulations defining their business operations. Legal persons that are classified into small legal persons pursuant to Article 4 of this Law may decide to have their financial statements audited in accordance with the provisions of this Law.

## **Audit Firms**

### **Article 50**

All types of auditing shall be carried out by firms approved by the Ministry. Audit firms shall be established in accordance with provisions of this law and laws regulating the issues concerning the establishment, operation and termination of operation of business companies.

Licences to the audit firms approved in accordance with the provisions of the relevant Laws on Accounting and Auditing of Republika Srpska and Brcko District shall be issued in accordance with the conditions of mutual recognition of qualifications in the entire territory of BiH, defined by the Accounting and Auditing Law of BiH.

A majority of the voting right and a majority share in capital in an audit firm shall be owned exclusively by statutory auditors or another audit firm in capacity of founder. An audit firm may provide auditing services only if it employs at least one full-time licensed statutory auditor for an indefinite period of time.

An audit firm employing only one full-time statutory auditor may not perform an audit of financial reports of:

- shareholding companies and limited liability companies whose annual income exceeds BAM 8,000,000.00, upon expiry of one year from the affective date of this Law, business companies and public companies whose securities are quoted on the Stock Exchange,
- banks, investment funds and companies, insurance companies, brokerage firms,
- or other legal persons engaged in financial services, and for which the law governing the conduct of these activities determines the extent of additional audit of the consolidated report.

An audit firm shall insure itself against the risk against liability for damages that may be caused by an incorrectly given auditor's opinion. The minimal sum of risk coverage per adverse event shall be BAM 50,000.

For damage that may be caused to banks, leasing companies, investment and pension funds and insurance companies by an audit firm through performing an audit, the minimal sum of coverage per adverse event shall be BAM 500,000.

Detailed provisions governing insurance against liability for damage shall be prescribed by the Chamber within six months of establishment date.

### **Article 51**

The financial statement audit shall be performed by persons who have a professional title of statutory auditor with a valid license to work in auditing of financial statements and who are employed with an audit firm or hired by an audit firm.

A statutory auditor is an independent professional person who performs the audit and is responsible for the correctness of the audit, preparation of audit reports and giving audit opinions in accordance with auditing standards and the law.

For the purposes of an audit of specific areas external experts who are not statutory auditors can be hired with the written consent of the legal person which is audited. The Chamber needs to be notified of the engagement of external experts. Besides a statutory auditor, persons who are not statutory auditors can be engaged in auditing as auditor intern (pripravnik).

### **Article 52**

An audit firm shall be selected by the legal person. The decision on the selection of an audit firm shall be made by a body of the legal person set forth in the appropriate by-law. An audit firm that has been selected shall not perform the audit for more than five consecutive years from the affective date of this Law.

Exceptionally, the audit can be conducted by the same audit firm for another two years after the timeline under paragraph 2 of this Article expires, if the audit is performed by a different auditor.

Audit firms shall submit to the Ministry copies of contracts for auditing concluded in the previous year no later than 15 January of the current year.

The mutual rights and obligations of the audit firm and the legal person audited shall be regulated in a contract for auditing. The contract for auditing shall be made in writing and cannot be cancelled for unjustified reasons. Divergence of opinion concerning accounting and auditing between representatives of legal person audited and the audit firm shall not be a good reason for cancelling contract to audit.

An audit firm shall not transfer contracts for auditing to another audit firm.

A fee shall be paid for an audit. The amount of remuneration shall be determined in the contract and cannot be lower than the rates under the auditing service tariffs brought by the Chamber with the approval of the Ministry. The tariffs shall be published in the Official Gazettes of the Federation.

An audit firm which during performance of an audit remains without at minimum onefull-time statutory auditor employed for an indefinite period of time shall cease further work and inform the Ministry and the legal person being audited about that change within eight days from the day of change.



If circumstances under paragraph 1 of this Article occur, the audit firm shall not conclude new contracts for auditing until it meets all requirements under Article 50 of this Law.

### **Article 53**

An audit report of financial statements shall give an opinion about whether the financial statements fairly present all substantially important respects of the financial situation and results of operations of legal person, changes in equity and cash flows during the accounting period covered by the audited financial statements and whether the statements are prepared in accordance with IAS or IFRS.

Any auditor's opinion must be given in accordance with ISA and can be positive, with reservation, negative or in the form stating that the auditor has refrained from giving opinion.

An audit report on the audit for special purpose shall be drawn up in accordance with special regulations.

An audit report shall be drawn up and signed by a statutory auditor in his own name and the authorized representative on behalf of audit firm.

An audit report shall be accompanied by financial statements that were subject to auditing.

Upon an invitation by the management of a legal person or at personal request, a statutory auditor who made an audit report can attend the meeting of the management body of the legal person at which the report on performed audit of that legal person is considered.

### **Article 54**

Working papers and documents created during an audit shall be confidential, owned by the audit firm and the auditor who performed the audit and can only be used for audit purposes and are subject to the protection and confidentiality of data.

The statutory auditor, audit firm and other people who worked and were in any way in touch with confidential information during the audit shall not release it to any third parties or enable them to use it. Exceptionally, it can be used by the Chamber for quality assurance reviews. An audit firm shall allow access to any information if it is required to determine facts in investigation or criminal proceedings. The information can be submitted for review only at the written request by the court.

## **Licenses for Auditing Firms and Statutory Auditors**

### **Article 55**

The founder of an audit firm shall submit to the Ministry an application for work permit. With the application under paragraph 1 of this Article, the founder shall submit the following:

- the decision on establishment or some other founding act, the Articles of Association,
- a by-law regulating the methodology for financial statement audits, information on the founder(s) of the company,
- information on person(s) who will take full-time employment with the audit firm for indefinite period of time and a proof of employment of statutory and licensed auditor(s) (photocopy of the employment contract, worker's booklet and confirmation of registration with health insurance and pension and disability insurance),
- information about other auditors hired by the audit firm,
- decision on registration for providing auditing services with the competent court.

If the founder of an audit firm is a foreign legal person, a legal person from Republika Srpska or Brcko District, along with the application for issuing of work permit, in addition to the documents under paragraph 2 of this Article, it shall also submit the documentation proving that it has been registered for providing auditing services in its home -country or entity or Brcko District.

On the basis of a complete and documented application under paragraphs 2 and 3 of this Article a decision shall be made by the Minister within 30 days of submitting the application.

When the submitted documentation shows that statutory requirements for auditing have not been met, the Ministry shall issue a decision rejecting the application for a license.

### **Article 56**

The Ministry shall keep the Register of Audit Firms that were granted work permits. The Register of Audit firms shall contain the business name and address of the audit firm, form of organisation, names of founders and their share in capital of the audit firm, names of persons authorised to represent the audit firm and names of permanently employed or in some other way engaged statutory auditors with licences.

Information entered into the Register of Audit Firms shall be public. All changes in information under Article 55(2) and 55(3) of this Law shall be reported into the Register of Audit Firms within 30 days. The Minister shall make a decision on revoking a work permit to an audit firm in the following cases

- 1) If it performs a kind of auditing that is not in accordance with the provisions of this Law,
- 2) If it has been granted a licence to perform the auditing tasks on the basis of false information,

- 3) If it fails to act in accordance with Article 72 of this Law within the time limit provided for;
- 4) If it fails to meet the requirement under Article 53(2) of this Law,
- 5) If it provides the auditing services to a linked legal person or if there are some other barriers defined by the Code of Ethics in relation to that legal person, and ,
- 6) If it fails to insure itself in the manner prescribed by Article 50(7) and 50(8) of this Law against liability for damage that it may cause by giving an auditor's opinion. The decision under paragraph 5 of this Article shall be final in administrative proceedings, but an administrative dispute against it may be initiated.

### **Article 57**

The Ministry shall issue, renew and revoke the work permits/licences for performance of financial statement auditing by the statutory auditors. The Minister shall prescribe, in a rulebook, requirements for issuing, renewal and revoking of licences of the statutory auditors.

The Ministry shall keep a Register of statutory auditors which were granted a license conferring the title of statutory auditors on them in accordance with the law.

The Register of statutory auditors must include the name and surname of an auditor, the address, identification number, name of the body that issued a certificate to statutory auditor, the number and date of license issuance, expiry of license and other data relevant to the proper identification of statutory auditors. Information to be entered in the Register of statutory auditors shall be public.

### **Article 58**

The Ministry shall make a decision on revoking of licence of a statutory auditor in the following cases and striking off the Register:

- at the request of the licensee,
- if he/she provided false information when filing an application for licence,
- if he/she fails to meet requirements under Article 72(3) of this Law or fails to file an application for renewal of licence when it expired,
- if he/she was fined for offences against security of payment system and transactions. The decision under paragraph 1 of this Article shall be final in administrative proceedings, but an administrative dispute against it may be initiated.

## **Conflict of interests**

### **Article 59**

An audit firm and a statutory auditor may not perform an audit at the request of a legal person:

- 1) in which they are the owners of share or stocks,
- 2) for which they keep the account books or draw up financial statements for the reviewed period,
- 3) if they are related to the legal person in any way so that objectively there is a doubt as regards their independence and impartiality,
- 4) where the statutory auditor is a member of supervisory board or management or an employee's spouse or his/her relative in direct line to the second degree,
- 5) If in any way, there are other factors that lead to doubts about his independence and impartiality.

### **Article 60**

An audit firm and a statutory auditor may not perform an audit at the request of a legal person to which they provide the following services:

- 1) services related to the value assessment,
- 2) actuary services,
- 3) internal audits,
- 4) management and human resources services,
- 5) legal and expert services related to the auditing process,
- 6) advisory, broker, dealer or investment services.

## **VI. QUALITY ASSURANCE REVIEWS OF AUDIT FIRMS AND STATUTORY AUDITORS**

### **The Chamber of Auditors**

#### **Article 61**

Audit firms, which have professional licenses granted by the Ministry, shall establish the Chamber of Auditors. The Chamber shall be a professional organization of audit firms and statutory auditors who operate in the territory of the Federation. The Chamber shall be a legal person with public authority determined by this law. The Chamber shall have a responsibility to perform tasks in the field of auditing services and other professional areas related to audit, in particular to:

- 1) determine the amount of membership fee and other income,
- 2) care about the reputation of the auditing profession,
- 3) produce minimal methodology for quality assurance reviews of audit firms and statutory auditors,
- 4) supervise the quality of audit firms and statutory auditors, conduct proceedings as required and take necessary measures to eliminate irregularities found and sanction them, notifying the Ministry thereof every six months.

### **Article 62**

The Chamber shall be established within six months of the affective date of this Law and within one year of the date when the Chamber was constituted it shall enact by-laws governing the work of the Chamber.

Audit firms under Article 61 of this Law shall convene inaugural Assembly within 90 days of affective date of this Law

### **Article 63**

The Chamber shall publish: the Articles of Association (Statute) and the Decision on the amount of membership fees in the Official Gazette of the Federation. Pursuant to the Articles of Association, the Chamber shall publish by-laws and other documents enacted by the Chamber in the Chamber's Journal and on the website of the Chamber.

### **Article 64**

The bodies of the Chamber shall be: the Assembly, the Steering Committee, Chairperson of the Chamber and other bodies of the Chamber.

Responsibilities, tasks and operation of the Chamber shall be determined by this Law and the Articles of Association.

The Assembly shall:

- 1) adopt the Articles of Association with the prior approval of the Ministry and other by-laws of the Chamber,
- 2) issue a decision on the amount of membership fee with the prior approval of the Ministry,
- 3) adopt the Code of Professional Ethics for Auditors,
- 4) determine the rules of the oversight and quality assurance review procedures,
- 5) elect members to the Steering Committee, Chairperson of the Chamber and members of other bodies determined in the Articles of Association,

6) adopt an activity program and work plan, financial plan of the Chamber and adopt financial statements, approve annual performance reports and submit them to the Committee under Article 66 of this Law for consideration within 15 days of the date of adoption by the Assembly

7) appoint members to the Commission for Oversight and perform quality assurance review of audit firms.

The Assembly may decide on other issues as determined in the Articles of Association. The Chamber shall be managed by the Steering Committee. The Steering Committee shall:

1) propose work programs and development of the Chamber and monitor their implementation,

2) propose the amount of membership fee,

3) determine the minimum form and content of auditing working papers,

4) determines the minimum methodology for quality assurance reviews,

5) perform other professional tasks and services associated with the development of the auditing profession in accordance with the Articles of Association of the Chamber,

6) give members of the Chamber expert opinions and explanations, if they so request,

7) enact by-laws and documents in accordance with the Articles of Association (Statute), perform other tasks defined in the Articles of Association of the Chamber.

## **Quality Assurance Review**

### **Article 65**

The Chamber shall perform quality assurance reviews of audit firms and statutory auditors to verify whether they do business and perform audits in accordance with this Law, the ISA and other rules of the auditing profession.

The Chamber shall perform quality assurance reviews of the audits and audit reports, contracts and remuneration for audits, assess the internal control system evaluating the quality of the audit firm, check ownership and management structures, control recruitment of statutory auditors and examine other areas in accordance with the provisions of this Law (hereinafter : Quality assurance reviews).

The Chamber shall perform a quality assurance review of audit firms and auditors who conduct audit of legal persons of public interest and of other legal persons at least once every three years or at least once every six years respectively.

Prior to the commencement of a quality assurance review, the Chamber shall notify the audit firm in writing.

Quality assurance reviews under paragraph 1 this Article shall be carried out by a

Commission appointed by the Assembly of the Chamber, whose members are statutory auditors with a minimum of five years experience in auditing. The appointment of members of Commission shall be carried out in an objective way to prevent conflicts of interest between the people who perform a quality assurance review and the audit firm that is subject to review. The Commission shall report to the Assembly.

Upon completion of the review a report shall be made to contain findings and opinions of the completed review.

If in the course of a review irregularities were found in the performance of audit firm and statutory auditors, the report under paragraph 6 of this Article shall contain an order to remove irregularities and a deadline for removal.

The audit firm and statutory auditors are entitled to file a written objection to the report made within eight days of receipt. The Chamber shall decide it within three days of receipt.

If an audit firm and statutory auditors fail to comply with the order for removal of irregularities, the Chamber shall submit a proposal to the Ministry for a license/work permit revocation and striking off the Register of Audit Firms.

## **Public oversight**

### **Article 66**

Public oversight of the Chamber, audit firms and statutory auditors shall be conducted by the Public Oversight Board (hereinafter: the Board).

The Board shall have five members appointed and dismissed by the Government of the Federation on the proposal of the Minister. The Board shall make decisions by consensus. The members of the Board shall be experts in the field of auditing that are knowledgeable in this area and who are not professionally engaged in conducting audits.

The Board shall oversee:

- 1) the registration of audit firms,
- 2) the adoption of standards of professional ethics, internal quality control of audit firms and auditing
- 3) implementation of permanent training, quality assurance and a system of discipline. The Board shall also oversee the following:
  - 1) the legality of performance and actions of the Chamber,
  - 2) the effectiveness, efficiency and purposefulness of the Chamber,
  - 3) internal structure and organization of the Chamber and members' competence to carry out responsibilities of the Chamber,
  - 4) the relationship of members of the Chamber with audit firms and statutory auditors and other parties.

The Board shall cooperate with the supervisory authorities in the Republika Srpska, Brcko District, European Union member states and third countries, especially in cases of determining certain irregularities in the actions of audit firms and statutory auditors.

If needed, the Board shall conduct a subsequent audit of audit firms, and, if necessary according to the findings, shall undertake specific measures and actions and inform the Ministry thereabout regularly.

Funds for activities of the Board shall be provided in the Budget of the Federation of Bosnia and Herzegovina.

A program of activities and financial plan for the coming year shall be submitted to the Government of the Federation by the Board not later than 31 December of the current year, while a report on the activities for the previous financial year and the execution of financial plan, together with the Activity Report of the Chamber, shall be submitted for consideration and approval through the Ministry by 31 March of the current year.

The program of activities and Activity Report shall be published on the website of the Ministry and the Government of the Federation

#### **Article 67**

In order to implement public oversight, if necessary, the Board may seek appropriate reports and information about the work and completed tasks of the Chamber.

If in the implementation of public oversight the Board determines that there are certain violations and irregularities in the work of the Chamber it shall take the following actions:

- 1) request a report and other information about the detected irregularities,
- 2) propose measures to correct them,
- 3) take other measures within its competences to conduct public oversight

#### **Article 68**

Upon the proposal of the Chamber and with the prior consent of the Board, based on needs carried out during the subsequent inspection and findings, the Ministry shall issue a decision on striking off the Register of Audit Firms and on declaring license/work permit invalid:

- 1) if, on the basis of the report on a quality assurance review, it was determined that an audit was not carried out in accordance with this Law and its by-laws, IAS, Code of Professional Ethics for auditors and the accompanying instructions and explanations issued by IFAC,
- 2) if a work permit/license was issued based on false information given by founder ,
- 3) if the statutory auditor with a valid license who is employed in the company and provides audit services has quitted,



- 4) If it fails to insure itself against liability for damage that can be caused by an auditor's opinion,
- 5) If it performs auditing duties during the period of time when the audit firm was temporarily ineligible for audits or otherwise violates measures imposed.

The decision under paragraph 1 of this Article shall be published in the Official Gazette of the Federation. This decision cannot be appealed against, but an administrative dispute can be instituted.

## **VI. PENAL PROVISIONS**

### **Article 69**

A legal person shall be fined by BAM 5,000.00 to 15,000.00 for an offence if:

- 1) it fails to open account books, compose accounting documents, control accounting documents before entering them into account books, keep account books and/or close account books in accordance with Articles 14 through 24 of this Law,
- 2) it fails to retain accounting documents and account books in accordance with Articles 31 through 32 of this Law,
- 3) it fails to take inventory of assets and liabilities in accordance with Articles 25 and 26 of this Law;
- 4) fails to respond to the request from a statutory auditor for confirmation by the deadline under Article 28(4) of this Law
- 5) fails to retain annual financial reports by the deadline and manner under Article 31 of this Law,
- 6) fails to draw up consolidated financial reports and/or fails to store consolidated financial reports by the deadline and manner under Article 31 and 43 of this Law
- 7) fails to retain audit reports by the deadline and manner under Article 31 of this Law,
- 8) it fails to compose an annual report on business activity in accordance with Articles 40 and 41 of this Law,
- 9) it fails to submit financial reports and annual reports on business activity and auditor's opinion if it is obliged to have its annual financial reports audited and other documents to the authorized institution under Article 44 of this Law,
- 10) it fails to enable the authorised person to exercise oversight in accordance with Article 48 of this Law,
- 11) fails to remove deficiencies found and fails to inform the Tax Administration thereof in accordance with Article 47 of this Law.

The responsible person within a legal person shall be fined by BAM 500.00 to 3,000.00 for an offence under preceding paragraph of this Article

2. A legal person shall be fined by BAM 10,000.00 to 15,000.00 for an offence if::

- 1) fails to draw up and present annual financial reports under Article 33 of this Law applying IFRS,
- 2) fails to submit annual financial reports on forms provided for in Articles 36 and 39 of this Law,
- 3) fails to ensure to have its financial reports audited under Articles 49 and 52 of this Law and/or revise its financial reports in compliance with the auditor's opinion

The responsible person within a legal person shall be fined by BAM 500.00 to 3,000.00 for an offence under preceding paragraph of this Article.

3. An audit firm shall be fined by BAM 5,000.00 KM to 15,000.00 for an offence if:

- 1) it provides auditing services contrary to provisions of Article 50(5) and 50(6) of this Law, auditing services are provided by persons in the audit firm who does not meet requirements under Article 51 of this Law,
- 2) it provides auditing services contrary to provisions of Article 60 of this Law, it sub-contracts for auditing contrary to Article 52(6) of this Law,
- 3) it fails to retain working documentation in the manner under Article 32 of this Law,
- 4) it violates the obligation to keep information confidential in accordance with Article 54 of this Law,
- 5) it fails to draw up audit reports in the manner under Articles 49(1), 49(2) and 53 of this Law,
- 6) it fails to insure itself in the manner under Article 50(7) and 50(8) of this Law,
- 7) it fails to act in accordance with Article 65 of this Law while the Chamber performs a quality assurance review,

The responsible person within an audit firm shall be fined by BAM 500.00 to 3,000.00 for an offence under preceding paragraph of this Article.

4. An audit firm shall be fined by BAM 5,000.00 to 15,000.00 for an offence if statutory auditors audit legal persons contrary to provisions of Article 60 of this Law.

The responsible person within an audit firm and the statutory auditor shall be fined by BAM 500.00 to 3,000.00 for an offence under preceding paragraph of this Article.

5. A statutory auditor shall be fined by BAM 1,500.00 for an offence if:

- 1) he violates the obligation to keep information confidential in accordance with Article 54 of this Law,
- 2) he draws up and signs an audit report that is not drawn up in the manner under Articles 49(1), 49(2) and 53 of this Law, or if he fails or incorrectly assesses some significant items in financial statements that were audited, or if he fails to apply auditing rules, which has the effect of misleading financial statements, or wrong explanations of findings,

3) he fails to notify the audit firm about the occurrence of conflict of interest in accordance with Article 59 of this Law..

6. The Chamber shall be fined by BAM 2,500.00 to 7,500.00 for an offence if: it fails to discharge tasks provided for in Article 61 of this Law,

1) it fails to ask for approval of the Articles of Association from the Ministry, as provided for in Article 64(3)(6) of this Law,

2) it fails to perform a quality assurance review of an audit firm at least once in six months/three years in accordance with Article 65(3) of this Law.

The chairperson of the Chamber shall be fined by BAM 500.00 to 1,500.00 for an offence under preceding paragraph of this Article.

## **VII. TRANSITIONAL AND FINAL PROVISIONS**

### **Article 70**

Persons who have acquired professional titles until the affective date of this Law in accordance with the Accounting and Audit Law of the Federation of Bosnia and Herzegovina ("Official Gazette of the Federation of BiH", 32/05) shall have their acquired qualifications recognised.

### **Article 71**

Persons who have started the procedure of taking exam until the affective date of this Law under the programme of the Commission shall continue taking exam and acquiring the title under that programme, and shall have their passed exams and acquired titles recognized.

### **Article 72**

Audit firms that until the effective date of this Law have obtained the work permit from the Ministry shall harmonize its status and business operations with the provisions of this Law no later than within 180 days of effective date of this Law and submit to the Ministry documents (papers) as evidence confirming that they meet requirements for work in accordance with provisions of this Law.

Any application for issuing of work permit to an audit firm that was filed before the effective date of this Law shall be decided in accordance with provisions of the law applicable at the time of its filing, the audit firm being obliged to finish the harmonisation under paragraph 1 this Article within the prescribed period.

Statutory auditors, who got licenses from the Ministry before effective date of this Law, shall apply to the Ministry for renewal of licence within 90 days of the effective date of this Law.

Certified accountants, who have valid licenses and provide accounting services to third parties and are registered as self-employed persons, shall harmonize their status and business operations with Article 24(2) of this Law within a year of the effective date of this Law.

### **Article 73**

The Association of Accountants, Auditors and Financial Workers of the Federation of Bosnia and Herzegovina, registered with the Federal Ministry of Justice under the registration number 669 on 14 May 2003 shall be deemed to be a professional body for the purpose of this Law, provided that it meets the criteria set forth in this Law and the Auditing and Accounting Law of Bosnia and Herzegovina.

For the purpose of this Law, the Association of Auditors of the Federation of Bosnia and Herzegovina, registered with the Federal Ministry of Justice under the registration number 04-05-2-1909/01 on 13 May 2005, shall be considered a professional body, provided that it meets requirements set forth in this Law and the Auditing and Accounting Law of Bosnia and Herzegovina

### **Article 74**

Within six months of the effective date of this Law, the Minister shall enact the following:

- The Framework Chart of Accounts and Rulebooks on Its Application (Article 21(2) of this Law),
- The Rulebook on the Content and Form of Financial Statements (Article 39(1) of this Law).

The Minister shall enact the Rulebook on Issuing, Renewal and Revoking of Licences of the Statutory Auditors and Audit Firms under Article 57(2) of this Law within 60 days of the effective date of this Law.

### **Article 75**

Until enactment of by-laws on the basis of authorizations under this Law, the by-laws enacted on the basis of the Law that the Minister shall repeal upon entry into force of this Law shall apply.

### **Article 76**

As of the effective day of this Law, the Accounting and Auditing Law of the Federation of Bosnia and Herzegovina ("Official Gazette of the Federation of BiH", 32/05) shall be repealed.

## **Article 77**

This Law shall come into effect on the eighth day of publishing in "Official Gazette of Federation of BiH ", and shall apply as of 1 January 2010.

### **SPEAKER**

House of Representatives

Federation of BiH Parliament

Safet Softić

### **SPEAKER**

House of Representatives

Federation of BiH Parliament

Stjepan Krešić