

# ACCOUNTING AND AUDITING LAW OF REPUBLIKA SRPSKA

## I BASIC PROVISIONS

### Article 1

This Law regulates the field of accounting and auditing including issues of importance for organisation and functioning of the bookkeeping and accounting system, preparation and presentation of financial reports, establishing and operation of the Accounting and Auditing Council of Republika Srpska, auditing of financial reports, monitoring of the work of legal persons and entrepreneurs registered as providers of accounting and auditing services, and vocational qualification process, certification and licensing.

### Article 2

(1) Terms used in this Law have the meaning as follows:

a) accounting is a system providing information on 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,

b) bookkeeping is a system that includes collecting, classification, records keeping and recapitulation of business transactions, as well as safekeeping of original business documentation providing evidence on these transactions,

v) audit(ing) of financial reports is investigation of financial reports in order to provide an opinion regarding their objectivity and authenticity, and, based on all materially significant issues, it shows status of assets, capital and liabilities, business results, cash flows, and changes in equity, in accordance with International Accounting Standards, that is, International Financial Reporting Standards,

g) legal person is profit or non-profit legal person with the main office registered on the territory of Republika Srpska (hereinafter: Republika) or outside its territory,

d) entrepreneur is a private person with registered enterprise who keeps business records in line with the Law on Income or this Law,

đ) accounting and auditing standards are standards, instructions, explanations, guidelines and principles defined by this Law, published by the Accounting and Auditing Commission of BiH, or some other professional body acting with approval of the Commission,

e) Accounting and Auditing Council of Republika is a body established in line with this Law, and with a purpose of monitoring application of accounting and auditing standards in Republika,

ž) certificate is a public document issued by a professional body defined by this Law, proving that the holder of the certificate passed the exams and acquired the appropriate professional title,

z) licence is a public document serving as a working permit for a private person or a company issued, in line with provisions of this Law and of International Education Standards, by the Ministry of Finances of Republika (hereinafter: the Ministry) or some other professional body acting with approval of the Ministry,

i) professional body is a non-governmental, voluntary professional association in Republika, accepted by the Accounting and Auditing Commission of BiH,

j) authorised auditor is a person issued with a licence by the Ministry, upon being issued with a certificate by a professional body,

k) certified accountant is a person holding a certificate issued by the professional body in line with this Law,

l) certified accounting technician is a person holding a certificate issued by the professional body in line with this Law,

lj) APIF is *Agencija za posredničke, informatičke i finansijske usluge* a. d. (Agency for brokerage, IT and financial services) from Banja Luka,

m) Registry of financial reports is a central source of information and solvency of legal persons in Republika, established in accordance with the Law on Financial Reports Registry and

n) regulations dealing with accounting and auditing that are, by this Law, applied in Republika include International Accounting Standards (IAS), International Financial Reporting Standards (IFRS), International Standards on Auditing (ISA), International Public Sector Accounting Standards (IPSAS), Code of Ethics for professional accountants and the appropriate instructions, explanations and guidelines enacted by the International Accounting Standards Board (IASB) and all accompanying instructions, explanations and guidelines enacted by the International Federation of Accountants (IFAC).

(2) Gender-related terms used in this Law include both sexes.

### Article 3

(1) Provisions of this Law are applied to all business companies, including insurance companies, microcredit companies, leasing companies, investment funds, companies managing investment funds, brokerage-dealership companies, stock exchanges and banks, other financial organisations, cooperative ventures, other profit and non-profit legal persons with head office registered in Republika, as well as entrepreneurs who keep their business records in form of double-entry bookkeeping, based on the balance status.

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

(3) provisions of this Law apply to organisational units of legal persons with main office registered outside Republika, if they are produce income in Republika.

(4) provisions of this Law also apply to beneficiaries of the budget of Republika, budgets of municipalities and cities and budget funds.

(5) Minister of Finances (hereinafter: Minister) will, by means of special rulebook, define issues of importance for double-entry bookkeeping system in enterprises.

### Article 4

(1) Legal persons shall keep their business records as defined by this Law, prepare and present their financial reports, and conduct audits of financial reports in line with this Law and other laws and bylaws.

(2) Legal persons enact general acts regulating issues of importance for establishing and functioning of the bookkeeping and accounting systems these legal persons use.

(3) General acts referred to in Paragraph 2 of this Article include the Rulebook on accounting and bookkeeping policies and all other acts used by the administration of the legal person, in line with legal and professional rules, in order to regulate issues of importance for establishing and functioning of the accounting and bookkeeping system.

## Article 5

(1) Legal persons are classified on the basis of average number of employees, total annual income and value of assets determined on the day of creation of financial reports for that business year.

(2) Based on criteria referred to in Paragraph 1 of this article, legal persons are classified as small, medium and large legal persons.

(3) Small legal persons are legal persons that, on the day of creation of financial reports, meet at least two of the following criteria:

a) average number of employees for the year of the financial report is below 50,

b) average value of business assets at the end of business year is less than 1.000.000 KM and

v) total annual income is less than 2.000.000 KM.

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

a) average number of employees in the year of financial report is between 50 and 250,

b) average value of business assets at the end of the business year is between 1.000.000 KM and 4.000.000 KM and

v) total annual income is between 2.000.000 KM and 8.000.000 KM.

(5) Large legal persons are legal persons with values greater than those defined in at least two criteria referred to in Paragraph 4 of this article.

(6) Medium legal persons are also legal persons with values greater than maximum values of one of the criteria referred to in Paragraph 4 of this article.

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

(8) Newly established legal persons are 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 next business year.

(9) Average value of business assets is calculated by dividing net sum of the booked value of business assets at the beginning and at the end of the accounting period with a 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 Republika, with a number of months included in the accounting period.

(10) 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 APIF, along with annual financial reports.

(11) As an exception to provisions of this Law, banks, microcredit companies, savings and loans cooperative ventures, insurance companies, leasing companies, companies dealing with investment funds, companies dealing with mandatory or voluntary pension funds, stock exchanges, brokerage and dealership companies, and other financial organisations are classified as large legal persons.

## II ORGANISATION OF THE BOOKKEEPING AND ACCOUNTING SYSTEM

### Article 6

(1) In line with this Law, legal person used its general act to:

a) define organisation of the bookkeeping and accounting system in a way that ensures comprehensive recordkeeping, and also detecting and prevention of falsely recorded business events,

b) regulate internal accounting control procedures,

v) determine accounting policies and accounting evaluations,

g) determine persons responsible for legality and accuracy of occurrence of business events, as well as creation and control of bookkeeping documents related to such events,

d) determine flow of bookkeeping documents and define deadlines for their submission for further processing and booking,

đ) determine procedures for preparation, compiling and presentation of financial reports,

e) 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

ž) regulate other issues of importance for establishing efficient bookkeeping and accounting system in the legal person.

(2) Legal person shall organise collecting and compiling of bookkeeping documents, keeping of business records, creating of annual and other periodical financial reports as in line with this Law and other appropriate bylaws, applying, at the same time, adopted accounting standards, principles and orderly bookkeeping principles.

(3) Legal person processing the data using a computer shall use accounting software that supports the functioning of the internal accounting control and prevents erasing of booked business events.

### 1. Bookkeeping documents

### Article 7

(1) Bookkeeping document is a document in writing, in material and electronic form, on the occurred business event, containing all data necessary for booking in business records, signed by persons authorised to compose and control bookkeeping documents.

(2) Bookkeeping documents are composed in place and time of occurrence of the business event, except for those composed in the accounting of the legal person.

(3) Xerox copy of the bookkeeping document may serve as a basis for booking of the business event, only if it contains indicated place of safekeeping of the original document, signed by the responsible person.

(4) Bookkeeping document received in electronic form is considered valid if it signed in a way defined by the Law on Electronic Signature of Republika Srpska.

### Article 8

(1) Bookkeeping document must be complete, true, contain correct calculations, and neat, composed in a way that enables full insight in the validity of the document.

(2) Control of bookkeeping documents cannot be conducted by persons who are materially in charge of the assets for which the documents were made.

(3) Persons in charge of creating and control of bookkeeping documents use their signature, hand-written or electronic, to confirm that the bookkeeping document is complete, true, contains accurate calculations, and that it reflects the main features of the business event in question.

(4) Responsible person within the legal person shall use the signature to validate the accuracy and completeness of the bookkeeping document before its data are recorded in business records.

(5) Persons working on composing and receiving of bookkeeping documents shall send the signed document and other documentation related to the business event to accounting department immediately after creation, that is, delivery, and not later than three days from the day of any change, that is, the day when the bookkeeping document was received.

(6) Persons maintaining business records shall book all bookkeeping documents in the books during the following day, and not later than eight days from the day of receipt.

## Article 9

(1) Bookkeeping documents are kept in their original material or electronic form, in form of electronic file or on microfilm.

(2) Payrolls and analytical records on salaries, documents on ownership and ownership status over the real estates and securities are kept for indefinite period of time.

(3) Bookkeeping documents on the basis of which the data were entered in the business records are kept for at least five years or more, if there are regulations imposing longer periods for which certain documents shall be kept.

(4) Bookkeeping documents are kept in business premises of the legal person, that is, in the organisational unit of the legal person or person entrusted with keeping business records.

(5) The period of time during which the bookkeeping documents are to be kept starts upon expiry of the last day of the accounting period, containing the data retrieved from such documents.

## 2. Business records

### Article 10

(1) Business records are uniform records on status of and changes in assets, liabilities and equity, as well as realised incomes and expenditures.

(2) Business records are: journal, general ledger and subsidiary ledgers.

(3) Journal and general ledger are kept based on the double-entry bookkeeping system.

(4) Journal is a business record for entering of business events occurring during the accounting period, in chronological order, according to the time of occurrence.

(5) General ledger is a systematic record showing status of and changes in assets, liabilities, equity, incomes and expenditures during the accounting period, and it serves as a basis for creation of financial reports.

(6) Subsidiary ledgers are analytic records kept for non-material investments, real estates, facilities and equipment, investment real estates, placing of finances, inventories, receivables, cash and cash-equivalents, liabilities and other balance positions.

(7) Number and contents of subsidiary ledgers, keeping method and relationship with the general ledger, etc. are determined by the legal person or entrepreneur by means of general act, as in line with this Law.

(8) Cash journal is a subsidiary record showing status of and changes in cash and cash-equivalents, and it is closed at the end of each day on which the change occurred, and it is sent to the accounting for booking the next day, the latest.

## Article 11

(1) Business records are opened at the beginning of the business year – calendar year or some other period, determined in line with this Law, on the basis of the balance sheet and closing balance sheet showing balance of assets and sources of assets on the day of conclusion of the previous accounting period.

(2) Newly established legal persons open their records on the basis of the beginning balance sheet made after inventory of all assets and liabilities of the newly formed legal person, showing situation on the day of establishing.

(3) Business year is equal to calendar year.

(4) Business records are used only for storing of authentic bookkeeping documents.

(5) Business records are kept in a way that ensures control and accuracy of inserted data, their safekeeping, possibility to use data, possibility to have insight in turnover and balance of accounts contained in the general ledger, and possibility to have insight into chronology of recording of business events.

(6) Business records are closed once all necessary bookings, pre-closing and final closing bookings are done, with a same deadline as annual financial reports, on the day of occurrence of statutory changes, day of end of business or other cases foreseen by the Law.

## Article 12

(1) Legal person and entrepreneur use their general act to, in line with this Law, determine the necessary level of professional qualifications, work experience and other characteristics required from a person who is to keep business records and create financial reports.

(2) In line with this Law, keeping of business records and creation of financial reports may be conducted by some other legal person or entrepreneur registered for bookkeeping and accounting services, employing qualified persons who are entrusted with keeping of business records and creation of financial report, who also meet other requirements defined by this Law and the general act of the legal person in question.

(3) Provisions of the Paragraph 2 of this article do not apply to banks and other financial organisations such as insurance companies, providers of financial leasing, voluntary pension funds, companies managing voluntary pension funds, stock exchanges, brokerage-dealership companies, investment funds, etc.

### Article 13

(1) Periods of time for which the business records and financial reports need to be kept, start upon the last day of the business year they refer to.

(2) Financial report and audit reports are kept for indefinite period of time in their original form.

(3) Journal and general ledger are kept for at least ten years.

(4) Subsidiary ledgers are kept for at least five years.

(5) Documentation used for an audit is kept by auditing companies for at least five years.

(6) Business records and financial reports are kept in their original form or using some other appropriate archiving methods.

(7) Business records and financial reports are kept in the business premises of the legal person, organisational unit of the legal person, entrepreneur or person entrusted with keeping of business record in Republika.

(8) If the business records are kept in electronic form, legal person, that is, organisational unit of the legal person or entrepreneur, need to allow provide control bodies with an access to the main database, for the purpose of uninterrupted control of business records.

3. Account framework, inventory of assets and liabilities and harmonisation of business records

### Article 14

(1) Business changes are booked in analytical accounts which, in their contents and balance category, are in line with accounts in the defined account framework.

(2) Account framework and contents of the account in the account framework for all legal persons and entrepreneurs are determined by the minister.

(3) Detailed account plan defined by the general act of the legal person, or entrepreneur, and has to be harmonised with defined account framework.

### Article 15

(1) Legal person or entrepreneur shall, at the beginning of business activity but also at least once a year, 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 balance recorded in business records with actual balance.

(2) Inventory of assets and liabilities is conducted by determining the amount and value of each inventory item.

(3) As an exception to deadlines referred to in Paragraph 1 of this article, legal person or entrepreneur may use its general act to foresee different deadlines for the inventory.

(4) Depending on the data processing method, harmonisation of turnover in the general ledger with a turnover shown in the journal, as well as the turnover and balance of subsidiary ledgers with turnover and balance of the general ledger is conducted continuously and not later than immediately before the inventory of assets and liabilities, that is, creation of financial reports.

(5) Apart from inventories with deadlines referred to in Paragraphs 1 and 3 of this article, legal person conducts inventory and harmonisation of booked balance and actual balance also at the moment of transfer of duties of the bookkeeper, changes in prices of products and goods, statutory changes, initiation of bankruptcy procedure, liquidation procedure, and other cases foreseen by the Law.

#### Article 16

(1) Prior to composing of annual financial reports, harmonisation of mutual claims and liabilities (balance confirmation) must be conducted, and supported by the appropriate bookkeeping document.

(2) Legal person is obliged to respond to the request from the authorised auditor regarding confirmation of balance of assets and liabilities.

(3) Legal person shall use notes accompanying financial reports to present all non-harmonised balances of assets and liabilities as well as reasons why the harmonisation was not achieved.

### III FINANCIAL REPORTS

#### 1. Annual and semi-annual financial reports

#### Article 17

(1) Legal person or entrepreneur compile and present to public financial reports for the business year that ended on 31<sup>st</sup> December of the current year with parallel data on the previous year.

(2) Exceptionally, dependent legal person with main company with a main office located abroad that has the business year different from the calendar year, with the approval from the minister, it may compile and present financial reports for the period different from the period referred to in Paragraph 1 of this article.

(3) Legal person that went through statutory changes compiles its financial reports on the day of that statutory change.

(4) Business changes occurring between the dates of balance and recording into court registry are recorded in business records of the previous legal person or the private person, which is determined in the decision on statutory change.

(5) Financial reports are compiled also in case of initiating, or termination, of bankruptcy procedure, that is, legal person liquidation procedure.

(6) Annual financial reports include:

- a) Balance sheet – Report on financial status at the end of a period,
- b) Income statement – Report on total result for that period,
- v) Cash flow statement – Report on cash flows,
- g) Statement on changes in equity and
- d) Notes to financial reports.

(7) As an exception to provisions of the Paragraph 6 of this article, small legal persons and entrepreneurs using double-entry bookkeeping, present their annual reports through:

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



(8) Together with the annual financial reports, users of financial reports are also presented with a special report made in accordance with a request from Republika Srpska Institute of Statistics.

(9) Responsibility for financial reports of the legal person is held by the person authorised to represent the legal person, registered in the court registry.

(10) Financial reports of the legal person are signed by the person authorised to represent the legal person recorded in the court registry and professionally qualified person referred to in Article 12 of this Law (person holding the appropriate licence) that is, in line with provisions of this Law and general act of the legal person, authorised to compose financial reports.

## Article 18

(1) 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<sup>st</sup> January to 30<sup>th</sup> June.

(2) Regardless from 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 to these markets, shall compile and present semi-annual financial reports if such obligation is foreseen in regulations dealing with securities.

(3) As used in provisions of this article, semi-annual financial report includes:

a) Balance sheet – Report on financial position at the end of a period,

b) Income statement – Report on total result for the period,

v) Cash flow balance – Report on cash flows,

g) Statement on changes in equity, and

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

## 2. Consolidated financial reports

### Article 19

(1) Consolidated financial reports are financial reports that are prepared on the level of group of interconnected legal persons that form one entity.

(2) Entity, in context of reporting, may include:

a) legal person that gains control over one or more legal persons and controlled legal persons (mother-company and dependant legal persons),

b) legal persons sharing control over one or more legal persons, and

v) legal person with significant influence on one or more legal persons (affiliates).

(3) Consolidated financial reports are compiled and presented by legal persons that, directly or indirectly, control one or more of connected legal persons, those that share control over other legal persons with other legal persons, or those that have significant influence on other (affiliated) legal persons.

(4) As an exception to provisions of Paragraph 3 of this article, if the total value of assets or total income on the level of the group of connected legal persons forming one entity, not taking into account effects of internal transactions among them, meet the criteria set out in Article 5 of this Law in a way causing such legal persons to be placed in the category of small legal persons, there is no obligation to compile and present consolidated financial report on the group level.

(5) In preparation of consolidated financial reports, rules and procedures contained in relevant accounting standards, defined in Article 4 of this Law, apply.

#### Article 20

Business records, financial reports and other financial information presented by the person referred to in provisions of this Law are expressed in official currency and official languages in Republika.

#### Article 21

(1) The Minister defines contents and form of financial reports that are prepared and presented in line with this Law.

(2) Entrepreneurs who, in line with this Law, decide to keep double-entry bookkeeping, prepare their financial reports using the appropriate forms for financial reports prescribed for legal persons.

#### Article 22

(1) Financial reports referred to in Article 21 of this Law must be submitted to General Registry of Financial Reports (hereinafter: the Registry) kept at APIF.

(2) Annual financial report are sent to the Registry not later than last day of February of the current year, for the previous year.

(3) Legal persons obliged by this Law to prepare and present consolidated financial reports shall submit these reports to the Registry not later than March of the current year for the previous year.

(4) Semi-annual financial reports are submitted to the Registry not later than 31<sup>st</sup> July of the current year.

#### Article 23

(1) APIF is under obligation to process the data taken from financial reports referred to in Article 21 of this Law in a way appropriate for evaluation of property, income and financial aspects of legal persons and entrepreneurs using the double-entry bookkeeping system.

(2) Data referred to in Paragraph 1 of this Article are public and available to all legal and private persons.

(3) Keeping and protection of data from retrieved financial reports, delivery method, control and processing of financial reports, use of data and other issues of importance to establishing and functioning of the Registry are regulated by the Law on Financial Reports Registry.

(4) Data received in line with provisions of Paragraph 1 of this article, APIF shall send to the Ministry within 60 days upon expiry of deadlines for submission of financial reports, defined in Article 22.

(5) APIF is under duty to send data on persons who failed to act in accordance with provisions of Article 22 of this Law to the Ministry, during the period of time set by the Law on Financial Reports Registry.

### 3. Annual report

## Article 24

(1) Legal persons are obliged to prepare annual reports on their business activity showing objective review of business activity of the legal person and its position, including description of main risks and threats, and measures undertaken to protect the environment.

(2) Annual report on business activity must contain:

a) all important events that occurred from the end of business year until the day of delivery of financial report,

b) evaluation of the expected future development of the legal person,

v) the most important activities related to research and development,

g) information on buy-off of equity stocks and shares,

d) information on business segments of a legal person,

đ) financial instruments used, if of importance for evaluation of financial position and level of success in business activities of the legal person,

e) goals and policies of the legal person regarding financial risks, as well as risk protection policies for each planned transaction that requires protection, and

ž) exposure of the legal person to price risk, credit risk, market risk, currency risk, solvency risk and other risks affecting business activity of the legal person.

(3) Annual reports on business activity of large legal persons and legal persons having their securities placed on the organised market for securities must also contain review of applied rules of corporate management.

(4) As an exception to provisions of Paragraph 1 of this article, small legal persons are not obliged to prepare annual report on business activity.

(5) Annual reports on business activity are kept in its original form for 11 years after the year for which they were made.

## IV ACCOUNTING AND AUDITING COUNCIL OF REPUBLIKA SRPSKA

### Article 25

(1) The Minister shall appoint the Accounting and Auditing council of Republika Srpska (hereinafter: the Council).

(2) The jurisdiction and duties of the Council are the following:

a) To monitor the process of application of the accounting and auditing standards from Article 2 of this Law,

b) To give initiatives for appropriate and timely solutions for the most effective application of the accounting and auditing standards in Republika,

c) To report to the Minister on the situation in terms of accounting and auditing standards,

d) To monitor the process of application of the directive of European Union relating to the area of accounting and auditing, and propose solutions acceptable to Republika,

e) To participate in preparation of strategy and development of guidelines and Action Plan for improvement of the quality of financial reporting in Republika,

f) To cooperate with the Accounting and Auditing Commission of BiH, local and foreign educational institutions that include an accounting and auditing department, as well as with foreign and local professional associations, bodies and organizations,

g) To establish criteria for determining of auditing services fees and

h) To perform other tasks within its competence, in accordance with this Law.

## Article 26

- (1) It shall be responsible to the Minister for its work.
- (2) The Council is due to submit to the Minister the report on operations at least once in a year.

## Article 27

(1) The Minister shall appoint members of the Council from the employees of the Ministry, representatives of professional bodies, university professors and other people who may contribute with their theoretical and practical experiences in the subject area to a more effective work of the Council.

(2) The Ministry shall perform expert and administrative tasks for purposes of the Council.

(3) On the occasion of appointing of the members of the Council, equal representation of both genders shall be taken into account.

## V FINANCIAL STATEMENTS AUDITING

### 1. Obligated persons and financial statements auditing process

#### Article 28

(1) Auditing of financial statements shall be made in accordance with this Law and with the International Standards of Auditing.

(2) Subject of obligatory auditing shall also be the financial statements of legal persons classified in large and middle-sized, consolidated financial statements, and financial statements of legal persons whose securities are marketed or preparation for their emission is made at an organized securities market.

(3) 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.

(4) Small legal persons may decide to have their financial statement audit performed in accordance with the provisions of this Law.

#### Article 29

(1) Auditing of financial statements shall be performed by companies licensed in accordance with the provisions of this Law.

(2) Auditing of financial statements shall be performed by persons with professional title of authorised auditor, who possess a licence for work on financial statements auditing tasks and who are employed in or engaged by an auditing company.

(3) In the report on conducted auditing of financial statements, an opinion shall be expressed on whether the financial statements express truly and objectively, in all essentially relevant issues, the financial state and business results of a legal person, as well as changes in capital and cash flows in an accounting period the reviewed financial statements relate to, as well as whether those statements have been prepared in accordance with the International Accounting Standards, or International Financial Reporting Standards.

(4) The opinion of an authorised auditor shall be expressed in accordance with the International Standards of Auditing, and it may be positive, opinion with reserve, negative or in a form where the auditor sustains from giving his/her opinion.

(5) An auditing company may conduct auditing at legal persons referred to in Article 28 of this Law if it has at least one full-time indefinitely employed authorised auditor with valid licence.

(6) One auditing company may conduct auditing of financial statement of one legal person for not longer than five consequent years.

(7) Exceptionally, an auditing company may conduct auditing at the same legal person for two additional years after expiration of the term referred to in paragraph 5 of this Article, if it arranges that the audit be performed by some other auditor.

(8) Auditing companies shall be obliged to deliver to the Ministry, not later than 15 January of the current year, the photocopies of agreements on auditing concluded during the previous year.

(9) Auditing of financial statements shall be performed for every business year separately.

(10) Competent authority in a legal person shall decide on selection of an auditing company in accordance with the Law.

(11) Auditing of financial statements shall be performed on the basis of a contract concluded between a legal person whose financial statements are reviewed and an auditing company not later than the end of the business year for which the financial statements are prepared as subject to an audit.

(12) An auditing company is entitled to compensation for performed audit and the amount of the fee shall be determined by an agreement on auditing.

## 2. Companies and persons authorised to provide the auditing services

### Article 30

(1) The auditing companies shall be registered in accordance with the provisions of this Law and other laws regulating the issues of relevance for establishment, operation and termination of operations of companies.

(2) All forms of auditing in Republika shall be conducted by auditing companies possessing a licence issued by the Ministry.

(3) Licences to the auditing companies licensed in accordance with the provisions of the relevant Laws on accounting and auditing in Federation of BiH 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.

(4) At the request of a legal person at which an audit is performed, auditing may also be performed by auditing companies registered abroad, in the manner and under conditions prescribed by this Law.

### Article 31

(1) The majority right to vote and majority share in capital in an auditing company may be owned exclusively by authorised auditors or some other auditing company in capacity of founder.

(2) An auditing company may also be established by a foreign company dealing with auditing, in accordance with Article 34 paragraph 3 of this Law.

## Article 32

(1) The Ministry shall keep the Registry of Auditing Companies issued with work permits.

(3) The Registry of Auditing Companies shall mandatory contain the business name and address of the auditing company, form of organisation, names of founders and their share in capital of the auditing company, names of persons authorised to represent the auditing company and names of permanently employed or in some other way engaged authorised auditors with licences.

(4) Information to be entered into the Registry of Auditing Companies shall be public.

## Article 33

(1) The Ministry shall issue, renew and revoke the work permits – licences for performing of works of financial statement auditing – to the authorised auditors.

(2) The Minister shall prescribe by a Rulebook the requirements for issuing, renewal and revoking of licences for the authorised auditors.

(3) The Ministry shall keep the Registry of the Authorised Auditors who have been issued, in accordance with the Law, with a work permit with title of an authorised auditor.

(4) The Registry of Authorised Auditors shall mandatory contain the full name of an authorised auditor, his address of residence, unique identification number, name of the body that issued the certificate to the authorised auditor, the number and date of issuing of the licence, period of validity of the licence and other information of relevance for proper identification of an authorised auditor.

(5) Information to be entered into the Registry of Authorised Auditors shall be public.

### 3. Establishment of an auditing company

## Article 34

(1) The founder of an auditing company shall submit to the Ministry a request for issuing of the work permit to the auditing company.

(2) With the request referred to in paragraph 1 of this Article, the founder shall submit the following:

- a) The decision on establishment or some other founding act,
- b) The proposal of Articles of Association,
- c) The rulebook or other internal act regulating the methodology for performing of auditing services,
- d) Information on the founders of the company, and
- e) Information on person/persons who will start the full-time employment at the auditing company for indefinite period.

(3) If the founder of an auditing company is a foreign legal person, a legal person from Federation of Bosnia and Herzegovina or Brcko District, with the request for issuing of work permit, in addition to the documents referred to in paragraph 2 of this Article, it shall also submit the documentation proving that it has been registered for providing of auditing services in its home country or entity, or Brcko District respectively.

## Article 35

(1) Decision upon the request for issuing of the work permit shall be made by the Minister within 30 days from the date of submission of a complete request.

(2) Decision referred to in paragraph 1 of this Article is final in administrative procedure, and an administrative proceeding may be initiated against it.

## Article 36

(1) After obtaining of the work permit, the founder shall be obliged to register the auditing company at the competent Registration Court.

(2) With the application for registration into the Court's Registry, the founder of a company shall submit the decision referred to in Article 35 paragraph 1 of this Law.

(3) After the registration in the Court's Registry, the founder is obliged to register the company within 30 days into the Registry of Auditing Companies kept at the Ministry.

(4) With the request for registration in the Registry of Auditing Companies, the following shall be submitted to the Ministry:

a) Decision on registration of the auditing company in the Court's Registry,

b) Evidence on employment of one or more authorised auditors with valid licence, full-time indefinitely employed (a photocopy of employment contract, worker's booklet and confirmation on applications for health and pension-invalid insurance), and

c) Information on other auditors engaged by an auditing company.

(5) Within 30 days, all changes in the data that are, in accordance with Article 32 of this Law, kept in the Registry of Auditing Companies shall be mandatory reported to the Registry of Auditing Companies.

## Article 37

(1) The Minister shall make a decision on revoking of work permit to an auditing company in following cases:

a) If it performs a form of auditing that is not in accordance with the provisions of this Law,

b) If it has been issued with a licence to perform the auditing tasks on the basis of false information,

c) If it has not been registered in the Court's Registry or in the Registry of Auditing Companies kept at the Ministry,

d) If it fails to meet the requirement referred to in Article 29 paragraph 5 of this Law,

e) if it provides the auditing services to a related legal person or if there are some other barriers defined by the Code in relation to that legal person, and

f) If it fails to insure itself in the manner prescribed by Article 39 of this Law against liability for damage that it may cause by expressing of auditor's opinion.

(2) The decision referred to in paragraph 1 of this Article is final in an administrative procedure, and an administrative proceeding against it may be initiated.

#### 4. Conflict of interests and incompatible activities

##### Article 38

(1) An auditing company and an authorised auditor may not perform an audit at the request of a legal person:

- a) In which they are the owners of share or stocks,
- b) For which they keep the business records or draft financial statements for the reviewed period, or
- c) If they are related to the legal person in any way so that objectively there is a doubt as regards their independence and impartiality.

(2) An auditing company and an authorised auditor may not perform an audit at the request of a legal person they provide the following services:

- a) Related to the value assessment,
- b) Actuary services,
- c) Services related to functioning of the internal control and internal audit system,
- d) Management services,
- e) Legal and expert services related to the auditing process,
- f) Advisory, broker-dealer or investment services, and
- g) Other services provision of which would lead to the conflict of interests.

##### Article 39

(1) An auditing company shall be obliged to insure itself against the risk as regards liability for damages that may be caused by an incorrectly expressed auditor's opinion.

(2) For damage that may be caused by an auditing company through performing of an audit, the minimal sum of risk coverage per adverse event is 50,000 KM.

(3) For damage that may be caused by an auditing company through performing of an audit at banks, leasing companies, investment and pension funds and insurance companies, the minimal sum of coverage per adverse event is 500,000 KM.

(4) The Minister shall prescribe, by a rulebook, minimal sums of risk coverage per individual adverse events.

##### Article 40

(1) An auditing company which during performance of an audit remains without at minimum one full-time indefinitely employed authorised auditor shall be obliged to cease further work and inform the Ministry and the legal person at whom it performs the audit on that change within eight days from the day when the change occurred.

(2) If a circumstance referred to in paragraph 1 of this Article occurs, an auditing company may not conclude new contracts on auditing until it meets all requirements prescribed by this Law.

##### Article 41

Upon a call from the management of a legal person or at personal request, an authorised auditor has right to attend the assembly of the management body of the legal person at which the report on performed audit at that legal person shall be considered.



## VI MONITORING

### Article 42

(1) Monitoring over the activities of legal persons and entrepreneurs, for the purposes of checking whether the activities of relevance for the organization and functioning of the accounting and auditing system, as well as for preparation and presentation of financial statements, are performed in accordance with the provisions of this and other relevant Laws and regulations adopted on the basis of those Laws, shall be performed by the Ministry.

(2) Monitoring in terms of the provision referred to in paragraph 1 of this Article over the activities of individual persons to which the provisions of this Law apply, shall also be made by the Banking Agency of Republika, Insurance Agency of Republika and Securities Commission, within their legally prescribed competences and authorisations.

(3) Legal persons and entrepreneurs are obliged to put at disposal to the persons authorised for monitoring all bookkeeping documents, business records, financial statements and other information based on which it is possible to perform control of the activities defined by this Article.

(4) The Ministry shall also perform the monitoring over the work of legal persons and entrepreneurs registered for providing of accounting services.

### Article 43

(1) The Ministry shall perform the monitoring over the work of an auditing company.

(2) Monitoring over the work of an auditing company shall be made by the Ministry at least once in five years, and it will include hiring physical or legal persons who possess professional qualifications necessary for performing of monitoring tasks.

(3) The person referred to in paragraph 2 of this Article during the procedure of performance of monitoring has right and obligation to make insight, in the premises of the auditing company, into general and individual acts of the company, as well as into records and other documentation in order to establish the facts of particular relevance for quality performance of monitoring, and in particular the following:

- a) On founders of an auditing company,
- b) On engaged licensed authorised auditors employed indefinitely with full- or part-time engagement, as well as the number of totally engaged auditors on other bases,
- c) Whether the information on concluded contracts on auditing are timely submitted to the Ministry,
- d) Whether contracted works are insured against liability for damages,
- e) Whether the regulations from the field of auditing are applied in performing of audit,
- f) Whether an auditing company has ensured the internal quality control in performing of the contracted auditing tasks, and
- g) Other information and records of relevance for quality performance of monitoring.

(4) The person referred to in paragraph 2 of this Article shall draft a written report on performed monitoring.

(5) The report referred to in paragraph 4 of this Article shall be submitted to an auditing company where monitoring was made and to the Ministry.

#### Article 44

(1) If during the monitoring procedure over the work of an auditing company it is found that a general or individual act or action taken violates the provisions of this Law, the person entrusted with performing of monitoring shall have obligation and authorisation to order by a decision the removal of established deficiencies and to determine the term within which those deficiencies have to be removed.

(2) Against the decision referred to in paragraph 1 of this Article, an appeal may be submitted to the Minister within 15 days from the date of receipt of the decision.

(3) The appeal shall not postpone execution of the decision.

(4) If a company for auditing fails to act in accordance with the order and within the period defined in the final decision, the Minister shall make a decision on revoking of work permit for an auditing company.

(5) Decision referred to in paragraph 4 of this Article is final in an administrative procedure and an appeal against it shall not be allowed, but an administrative proceeding may be initiated.

### VII TITLES, TESTING, CERTIFICATION AND LICENSING

#### Article 45

(1) Professional body defined by this Law, in cooperation with the Accounting and Auditing Commission of BiH, conducts a unique program for acquiring of titles and qualifications in the accounting and auditing profession in Republika.

(2) 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 authorised auditors, continual education, quality control of work of its members, and issuing of certificates for all titles in the profession, as well as licences for titles in the field of accounting.

(3) Upon obtained opinion from the Ministry, the Government of Republika Srpska shall issue its approval to the regulations defining conditions, method and fees envisaged in paragraph 2 of this Article.

#### Article 46

(1) In accounting and auditing profession in Republika, three titles are established, as follows:

- a) Certified Accounting Technician (hereinafter: CAT),
- b) Certified Accountant (hereinafter: CA) and
- c) Authorised Auditor (hereinafter: AA).

(2) Testing of candidates for titles referred to in paragraph 1 of this Article, issuing of certificates and licences shall be made in the following manner:

- a) Testing of candidates for all titles, in the manner prescribed by Accounting and Auditing Law of BiH, shall be made by Accounting and Auditing Commission of BiH,
- b) Issuing of certificates for all titles shall be made by a professional body established by this Law,
- c) Licensing for CAT and CA shall be made by a professional body established by this Law, and

d) Licensing of authorised auditors shall be made by the Ministry, in accordance with this Law.

(3) Persons who obtained their licences in Federation BiH and Brcko District BiH in accordance with valid regulations may obtain appropriate licences in Republika in accordance with the provisions of the Accounting and Auditing Law of BiH.

#### Article 47

Use of qualification and title referred to in Article 46 of this Law by persons who have not been certified and licensed in accordance with this Law, as well as offering or performing of independent accounting or auditing services to third parties by persons not licensed in accordance with this Law, are illegal.

#### Article 48

(1) Persons who possess a certificate issued by professional bodies outside of BiH, after they submit the evidence of meeting the IFAC's requirements of education in the country they acquired qualification, as well as requirements as regards professional qualification, working experience and knowledge related to legal regulations and tax system in Republika and BiH, may submit a request for validation of acquired title and qualifications.

(2) Validation of acquired titles and qualifications for persons from paragraph 1 of this Article shall be performed by a professional body defined by this Law, in the manner and with requirements prescribed by the Accounting and Auditing Commission of BiH.

#### Article 49

(1) In accordance with the Accounting and Auditing Law of BiH, all persons being issued with a certificate and licence in the other entity or Brcko District, providing that the entity and Brcko District have adopted the Law and by-laws ensuring identical acknowledgment of certificates and licences issued in Republika in the territory of the other entity and Brcko District, shall have acknowledged the acquired qualification in profession in Republika and shall not be requested to provide validation of a diploma.

(2) Obligation to submit a request for registration auditing companies, defined in Article 34, paragraph 3 of this Law, refers to auditors or auditing companies which, in accordance with this Law, want to establish an auditing company in Republika.

#### Article 50

Administrative and expert supervision over the implementation of this Law shall be exercised by the Ministry.

### VIII PENALTY PROVISIONS

#### Article 51

(1) A legal person shall be fined 3,000 KM to 15,000 KM, in the event:

a) If it fails to make classification in accordance with Article 5 of this Law,

- b) If it fails to arrange with a general act organisation of accountancy in the manner referred to in Article 6 of this Law,
  - c) If it uses computerised data processing methods, and fails to provide an accounting software enabling functioning of the internal accounting control system (Article 6),
  - d) if it fails to compose, control and keep business records and bookkeeping documents in accordance with the provision of this Law (Art. 7, 8, 9, 10, 11 and 13),
  - e) If it fails to appoint with a general act a person entrusted with keeping of business records (Article 12),
  - f) If it fails to take inventory of assets and liabilities within prescribed period (Article 15),
  - g) if it fails to make balance of receivables and liabilities, fails to respond to the request from an authorised auditor for confirmation on the balance of receivables and liabilities or fails to publish in the notes the information on imbalanced receivables and liabilities (Article 16),
  - h) If it fails to compose or present financial statements (Art. 17, 18, 19, 20 and 21),
  - i) If it fails to submit financial reports to the Registry of Financial Statements or fails to perform an audit of financial statements (Art. 22 and 28),
  - j) If it provides audit services in the territory of Republika without previously met or contrary to requirements prescribed by this Law (Art. 30, 34, 38, 39 and 40),
  - k) If it fails to report within prescribed period any changes in the data on an auditing company, in accordance with Article 36 of this Law,
  - l) If it fails to enable the authorised person to perform monitoring or fails to remove deficiencies established during the monitoring (Art. 42, 43 and 44).
- (2) In the event of acts referred to in paragraph 1 of this Article, the responsible person within a legal person shall be fined 300 KM to 1,500 KM for offence, and
- (3) A physical person who uses the information obtained from the Registry of Financial Statements in the manner contrary to the provisions of this Law, shall be fined 300 KM to 1,500 KM for offence
- (4) A physical person who uses qualifications in profession prescribed by this Law or offers and performs independent accounting and audit services to third parties, and is not certified and licensed in accordance with the provisions of this Law (Article 47), shall be fined 300 KM to 1,500 KM for offence

## VIII TRANSITIONAL AND FINAL PROVISIONS

### Article 52

Persons who have acquired professional titles until the day this Law becomes effective in accordance with the Accounting and Audit Law of Republika („Official Gazette of Republika Srpska“, No. 67/05) shall have their acquired qualifications acknowledged.

### Article 53

Persons who have started the procedure of taking exam until the day this Law becomes effective under the curriculum of the Accounting and Audit Commission of BiH, shall continue taking exam and acquiring of title under that curriculum, and shall have their passed exams and acquired titles acknowledged.

#### Article 54

(1) Auditing companies that until the day this Law becomes effective have obtained the work permit from the Ministry shall be obliged to harmonize, not later than within six months from the day when this Law becomes effective, its status and business operations with the provisions of this Law.

(2) Request for issuing of work permit to an auditing company that is submitted before the day this Law becomes effective shall be solved in accordance with the provisions of the Law applying at the time of its submission.

#### Article 55

Within six months after the day this Law becomes effective, the Minister shall approve the following:

a) The rulebook regulating the issues relevant for establishment of the double-entry bookkeeping at entrepreneurs in accordance with the provisions of this Law (Article 3, paragraph 5 of this Law),

b) The accounts frameworks and rulebooks on their application (Article 14, paragraph 2 of the Law),

v) The rulebook on contents and form of financial statements (Article 21, paragraph 1 of the Law),

g) The rulebook regulating issuing, renewal and revoking of licences of the authorised auditors (Article 33, paragraph 2 of the Law) and

d) The rulebook prescribing minimal sums of adverse event risk coverage caused by issuing of incorrect auditor's opinion (Article 39 of the Law).

#### Article 56

Until adoption of by-laws on the basis of authorizations from this Law, the by-laws adopted on the basis of the Law that ceases to be effective when this Law enters into force shall apply.

#### Article 57

As of the day this Law becomes effective, the Accounting and Audit Law of Republika („Official Gazette of Republika Srpska“, No. 67/05) shall cease to apply.

#### Article 58

This Law shall become effective on the eighth day from the date of publishing in the „Official Gazette of Republika Srpska“, and shall apply as of 1 January 2010.

PRESIDENT  
OF THE NATIONAL ASSEMBLY

Igor Radojicic, MA

Number,  
Banja Luka,