

# AUDIT LAW

## I. GENERAL PROVISIONS

### Article 1

This Law regulates the conditions and the manner of performing audits of legal and physical entities which perform their activities, and have their representative office in the Republic of Macedonia (hereafter: the subject of audit), which are obligated either by law or on their own demand to submit their financial reports and accounting records for auditing and other questions related to the audit.

### Article 2

Audit, in the context of this Law, means an examination and evaluation of the financial reports and accounting records, as well as the information and methods applied in their preparation, and, on that basis, expression of an independent professional opinion as to whether those reports truly and fairly present the condition of the assets, capital, receivables and liabilities, and the results of the operation of the audit subject.

The audit from paragraph 1 of this Article, comprises an examination and evaluation of operations, the organization of the business functions, the manner of business decision making, and the functionality of the information system of the audit subjects, as well as other important questions about their operation.

## II. AUDIT COMPANY

### Article 3

The audit is performed by an audit company.

The audit may be performed by domestic and foreign legal audit entities, registered to perform such activities in the Republic of Macedonia in accordance with this Law and the Law for Trade Companies.

If a foreign legal entity for auditing from paragraph 2 of this Article, is not registered to perform audits, in such case, the audit shall be performed only in conjunction with a domestic audit company registered to perform such activities in the country of residence(Macedonia), according to this Law and to the Law for Trade Companies.

### Article 4

The audit company may be established only by registered auditors.

By exception from paragraph 1 of this Article, the founder of an audit company may also be a legal entity without status as an audit company if the deposit of the legal entity in the capital of the audit company does not exceed 25% from the total capital.

The founder of audit company may establish only one audit company.

In an audit company there must be at least two employed registered auditors.

### **Article 5**

The founder of an audit company submits an application to the Ministry of Finance for issuance of a certificate to work.

Enclosed in the application from paragraph 1 of this Article, the founder submits:

1. foundation contract, i.e. another articles of incorporation;
2. draft by-laws;
3. data for the persons who shall perform audits, bearers of the title registered auditor, as well as data for other persons who shall be employed by the audit company.

If the founder of an audit company is a foreign legal entity for auditing, besides the documents enclosed to the application for issuance of certificate to work, i.e. the documents from paragraph 2 of this Article, must also submits a document certifying that the foreign legal entity is registered to perform such activities in their country of residence and an agreement to perform jointly audits with a domestic audit company.

The audit companies granted certificates to work, are registered in the Register of Audit Companies, maintained at the Ministry of Finance.

### **Article 6**

The Minister of Finance is obliged to decide upon the submitted application from Article 5 of this Law, within 30 days from the date of submittal.

### **Article 7**

The founder of an audit company, enclosed with the application for registration in the Trade Register, among other documents, submits the Decision for issuance of the certificate to work, issued by the Minister of Finance.

### **Article 8**

The Minister of Finance may withdraw the certificate to work from an audit company if:

- 1) the certificate for work is issued on the basis of false data
- 2) the number of registered auditors is reduced below the number prescribed by this Law, and the audit company, within the period of six months after the date of the occurred change, does not fulfill the number of registered auditors up to the number prescribed by this Law, and
- 3) it does not insure against liability for the damage which may be caused during performance of the audit, according to Article 16 of this Law.

### **Article 9**

The audit company which, during performance of the audit, reduces the number of registered auditors below the number prescribed by this Law, is obligated to notify the Ministry of Finance about the change within eight days after the date of the change.

### **Article 10**

When the Decision for withdrawal of the certificate becomes effective, the Minister of Finance notifies the Register Court to remove the audit company from the Trade Register.

### **Article 11**

The audit company, other than auditing, may perform activities from the area of providing accounting services and advice, financial activities, operation analysis, evaluation of the subject's value, organization and introduction of internal audit, tax advice, organization and control of the business activity of the legal entities, as well as other similar activities.

For the performance of the services from paragraph 1 of this Article, the audit company concludes a contract with the user of the services.

The registered auditor in charge of the audit, must not perform the services of paragraph 1 of this Article for the subject where he performs an audit.

The activities from paragraph 1 of this Article, the audit company must not perform for the subject, where it performs the audits.

### **Article 12**

The audit subject chooses the audit company and concludes a contract for performance of the audit. For the performance of the audit, a compensation fee is paid, the amount of which is determined by the audit contract.

### **Article 13**

An audit company which possesses shares of the audit subject or is an investor of funds in the audit subject, may not perform audits of that subject, nor of an audit subject who is an investor of funds in the audit company.

### **Article 14**

If an audit subject restricts the scope of an examination or makes it impossible to apply certain audit procedures, the audit company is obliged to state that in the report in accordance with the auditing standards.

An audit company which is not able to perform the audit in satisfactory manner, due to the reasons from paragraph 1 of this Article, has a right to terminate the audit contract, before the expiration date of the contract.

### **Article 15**

An audit company has an obligation to perform audit activities conscientiously and objectively and to maintain the confidentiality of information during performance of the audit.

In order to ensure independence working in the conduct of the audit, the audit subject must not attempt to influence the audit company.

### **Article 16**

The audit company which deliberately or due to negligence while performance of the audit causes damage to the audit subject has an obligation to pay compensation for that damage.

Within the period of seven days from the conclusion date of the contract, the audit company is obliged to insure itself against any liability which might arise during performance of the audit.

Within the period of seven days from the conclusion date of the contract, the audit company is obliged to submit the proof of indemnity against liability to the Ministry of Finance.

### **III. PERFORMANCE OF THE AUDIT**

#### **Article 17**

The audit activities are performed according to this Law, the regulations of the manner for performance of the audit, as well as to the International Auditing Standards, and the regulations for professional attitude of the auditor.

The Minister of Finance announces the International Auditing Standards, as well as regulations for professional conduct of the auditor in the “Official Gazette of the Republic of Macedonia”.

#### **Article 18**

The audit subject has an obligation to make available to the registered auditor the complete necessary documentation, licenses and reports and to supply the auditor with all other information necessary for performing the audit and preparing reports for the audit performed.

#### **Article 19**

The registered auditor prepares and signs a report including an expert opinion for the audit performed.

The report from paragraph 1 of this Article is also signed by the director of the audit company. The report must be presented to all legal representatives of the audit subject.

#### **Article 20**

The report of the registered auditor from Article 19 paragraph 1 of this Law is prepared in accordance with International Auditing Standards and includes specifically:

1. an explanation of the scope of the performed audit, in which is stated the full name of the audit subject, and the accounting statements which were subject to examination by the registered auditor, and for applying the auditing standards or the reasons for not applying the same standards.
2. an explanation of the basis upon which the accounting statements were prepared (accounting principles and accounting standards)
3. the opinion of the registered auditor as to whether the financial statements fairly present the financial status and the results of operations, and the changes in the financial condition of the audit subject; and
4. beginning and closing date of period for which the audit was performed the audit subject.

If during the performance of an audit, the registered auditor discovers information about circumstances which could harm or cause damage to the audit subject, or discovers major violations of the law, the contract, or the company by-laws by the Managing Board, or the Management, the registered auditor is obliged to disclose it in the report for the performed audit.

### **Article 21**

The opinion of the registered auditor from Article 20 paragraph 1 point 3 of this Law contains evaluation of the level of fairness and objectivity of the accounting statements and it may be:

1. positive opinion - an evaluation that the accounting statements objectively present the true financial condition and operating results;
2. reserved opinion - an evaluation that the fairness and objectivity of some categories and positions in the accounting statements must be accepted with reserve;
3. negative opinion - an evaluation that the accounting statements are not true and fair

If the registered auditor during the audit procedure, evaluates that there is lack of basis for expressing a credible evaluation about the fairness and objectivity of the accounting statements, he may abstain from expressing an opinion.

In case of paragraph 1 point 2 and 3, paragraph 2 of this Article, the report for the performed audit also should include an explanation about the reasons for expressing such an opinion, or for abstaining from expressing an opinion.

### **Article 22**

If during the audit procedure a complex question arises, for which the registered auditor evaluates that it's solution requires engagement of qualified persons outside of his associates and of the employees of the audit subject, the registered auditor may engage such persons, with previous approval from the subject where the audit is performed.

The opinion of the independent qualified persons which were engaged in relation to the audit tasks, does not discharge the registered auditor from the responsibility for the opinion expressed in cases from paragraph 1 of this Article or for the findings in the report.

### **Article 23**

The complete working papers, prepared during the audit procedure, should be maintained by the audit company, and serves for the purpose of the audit.

The audit company may not use the working papers from paragraph 1 of this Article for other purposes without approval of the audit subject.

### **Article 24**

The audit company is obliged to keep the report, the information and all other knowledge gained about the operations of the audit subject, at least 5 years from the end of the audit and to ensure complete confidentiality.

### **Article 25**

During the audit, the registered auditor has free access to the official premises and property, the right to inspect the books, the licenses and other documentation of the subject, as well as the right to ask for explanations and information from the representative of the subject where the audit is performed for all questions pertaining for performance of the audit.

The registered auditor has the right to be present at the annual assemblies or at the meetings of any other managing board of the audit subject, to ask for explanations and materials and to participate in their activities placing questions and giving answers and opinions for each part of the work which was subject of the audit.

#### **Article 26**

The information and knowledge discovered by the registered auditor during performance of the audit, represents a business secret and must not be revealed to other legal entities without authorization.

The registered auditor must not use the knowledge acquired during performance of the audit for gaining property or other benefits for himself or for any other entity.

#### **Article 27**

The registered auditor must not perform an audit if:

1. he is a shareholder or an investor of capital in the legal entity where the audit is performed;
2. he is a legal agent of the audit subject
3. he was previously an employee or legal agent of the audit subject during the 3 years preceding the audit;
4. he is a member of the Board of Directors, the Supervising Board or any other body of the subject where the audit is performed;
5. he was involved in the book keeping or he prepared the annual financial statement and the financial reports of the subject where the audit is performed; and
6. he is married, or relative in the first line to fourth level of relationship, guardian, court appointed custodian, protector, adoptive parent or adopted child, provider or dependent, co-owner or legal agent of the audit subject.

### **IV. REGISTERED AUDITOR**

#### **Article 28**

An audit may be performed only by registered auditors, employed by the audit company.

Depending on the activities scope and complexity, a registered auditor may engage other experts employed by the audit company.

A registered auditor may perform independently the audit activities in the authorizations framework and determined by this Law and by the International Auditing Standards.

A registered auditor is responsible for accuracy of the determined activities in the audit procedure, as well as for the expressed opinion.

#### **Article 29**

A registered auditor must satisfy the following requirements.

1. high level of education - graduated economist;
2. passed exam for registered auditor and acquired certificate for registered auditor;

3. not convicted for crimes which might make him inappropriate for the audit profession;
4. to declare a statement that in the course of performing his work, he shall apply the regulations determined by the Code of Ethics for the Professional Accountants of the International Accounting Association

A candidate for passing the exam for the title of registered auditor, should have at least 5 years of working experience in the field of accounting or financial activities, i.e. 3 years of working experience in the field of audit and control.

### **Article 30**

The exam for registered auditor shall be performed in front of the Commission, established by the Minister of Finance, according to the Program prescribed by the Minister of Finance.

The Minister of Finance shall issue the certificate for registered auditor to a person who passes the exam from paragraph 1 of this Article.

The costs for passing the exam for the title of registered auditor shall be born by the person taking the exam.

The certificate form and content, as well as the manner of passing the exam for the title of registered auditor are prescribed by the Minister of Finance.

### **Article 31**

On exceptional basis of the provisions from Article 30 of this Law the Minister of Finance may recognize the title of registered auditor, on the basis of written application and enclosed documentation, to persons who gained the title Master of Science in the Field of Accounting or Audit, and who published works in the field of theory and practice of accounting and audit, and have at least ten years of working experience in university teaching.

The persons from paragraph 1 of this Article must fulfill the conditions from Article 29 paragraph 1 point 3 and 4 of this Law.

### **Article 32**

Persons who have acquired their certificate for registered auditor abroad, must fulfill the conditions from Article 29 of this Law and must validate their license at the Ministry of Finance, in a manner and procedure determined by the Minister of Finance.

### **Article 33**

Registered auditors and registered national auditors may gather in the Union of Accountants, Financial Technicians and Auditors of the Republic of Macedonia.

The Union of Accountants, Financial Technicians and Auditors of the Republic of Macedonia may perform publishing activities in the area of audit, as well as other activities established by its By-law.

## **V. PENALTY PROVISIONS**

### **Article 34**

A legal entity - an audit company shall pay a penalty fee of 10.000 to 300.000Denars if:

1. it does not perform the audit according to this Law and to procedures determined with the International Auditing Standards (Article 17);
2. it performs an audit, without a certificate to work (Article 6);
3. it performs the activities from Article 11, paragraph 1 from this Law for the subject of audit (Article 11, paragraph 4);
4. it performs an audit for the subject of audit in which it possesses shares or investments, i.e. if it performs an audit of the subject of audit which possesses investments in the audit company (Article 13);
5. it is not insured against liability for damage which it may cause by performance of the audit and if it does not submit the proof of liability insurance for damage to the Ministry of Finance within the due date (Article 16, paragraph 2 and 3);
6. it does not have the approval from the subject of audit for engaging an external expert (Article 22, paragraph1)
7. it does not secure secrecy of information and knowledge gained during performance of the audit (Article 23)

For the activities from paragraph 1 of this Article, the responsible person of the audit company shall be punished with a penalty fee of 1.000 to 50.000 Denars.

### **Article 35**

The subject of audit shall pay a penalty fee of 10.000 to 300.000 Denars if:

1. it limits the auditor's scope of investigation or it disables him to apply certain audit procedures (Article 14, paragraph 1), and
2. it doesn't make available to the auditor the necessary documentation, statements, licenses and other information for performance of the audit (Article 18).

For the activities from paragraph 1 of this Article, the responsible person of the subject of audit shall be punished with a penalty fee of 1.000 to 50.000 Denars.

### **Article 36**

A physical person which durably performs an activity - a subject of audit shall also be punished with a penalty fee of 10.000 to 100.000 for the activities from Article 35 of this Law.

A responsible person within the physical person which durably performs an activity - the subject of audit shall also be punished with a penalty fee of 1.000 to 15.000 for the activities from Article 35 of this Law.

### **Article 37**

A physical person - a registered auditor should pay penalty of 1.000 to 50.000 Denars if:

1. he does not perform the audit according to this Law and to procedures determined with the International Auditing Standards (Article 17);

2. he does not determine the right activities and expresses false opinion in the Audit Report (Article 21 and Article 28 paragraph 4);
3. he uses the complete documentation prepared or obtained during the audit procedure for other purposes without approval of the subject of audit (Article 23 paragraph 2);
4. he does not provide confidentiality of all data and information during the performance of audit and if he uses the results of the audit performed for acquiring property or other benefits for himself or for any other entity (Article 26);
5. he performs an audit in a company where he is not allowed to do so (Article 27) and
6. he performs an audit without being recognized as a registered auditor (Article 32).

Besides the penalty fee from paragraph 1 of this Article, the registered auditor shall also be restricted from performing his professional activity in duration of three months to one year.

## **VII. SPECIAL AND CLOSING PROVISIONS**

### **Article 38**

On exceptional basis of provisions in Article 30 of this Law, the Minister of Finance may recognize the title of registered auditor, on the basis of written application to a person fulfilling the following conditions:

1. as graduated economist to have minimum 15 years of working experience in managing accounting or financial activities, or
2. as graduated economist or graduated lawyer to have minimum 5 years of working experience in audit or controlling activities.

The person from paragraph 1 of this Article must fulfill the conditions from Article 29, paragraph 1, points 3 and 4 of this Law.

The Minister of Finance issues a temporal certificate for a registered auditor to persons who fulfill the conditions from paragraph 1 and 2 of this Article.

### **Article 39**

For following, coordinating and applying the International Auditing Standards, the Minister of Finance establishes a Committee for Auditing Standards.

### **Article 40**

The program for passing the exam for the title registered auditor and other regulations determined by this Law, shall be brought within 180 days from the effective date this Law.

### **Article 41**

The existing legal entities registered for performance of audit activities, are obligated to coordinate their organization and operation, as well as their articles of incorporation with the provisions of this Law, within 30 days from the effective date of this Law.

### **Article 42**

After this Law becomes operative, the provisions of the Law for Social Accounting Service (“Official Gazette of SFRJ”, no. 70/83, 16/85, 72/86, 74/87, 37/88, 61/88, 57/89, 79/90, 84/90 and

20/91) and the Law for Social Accounting Service of The Republic of Macedonia (“Official Gazette of the Republic of Macedonia”, no. 44/85), which regulate the economic-financial audit affairs shall become invalid.

**Article 43**

This Law becomes effective the 8<sup>th</sup> day from the publishing date in “Official Gazette of the Republic of Macedonia”.

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