

The Macrotheme Review

A multidisciplinary journal of global macro trends

CRITICAL REVIEW OF AUDIT LEGISLATION IN MONTENEGRO

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Abstract

Montenegro, as a candidate country for EU membership, but also a country which creates a favorable business environment for conducting business operations, has an obligation to comply with EU law. The area of audit in Montenegro is in the development phase, with a visible tendency to increase the volume of work of auditors, primarily due to legal changes made in compliance with EU law. The aim of this paper is to point out certain shortcomings in the regulatory framework for the regulation of auditing activity in Montenegro. The achievement of the stated objective of the research has been methodologically carried out in various ways - a detailed analysis of the proposed legal solutions, a comparative analysis with the solutions from the EU and countries from the region, a series of interviews with representatives of professional associations as well as the competent ministry, insight into the activities of auditors, and the like.

Keywords: Montenegro, audit, audit legislation, audit profession

1. Introduction

At the global level, but also at the level of each state, there is a clear decline in confidence in the work of the audit profession, primarily due to numerous financial scandals and their economic consequences (Nganga, 2014; Jones, 2011). Specifically, investigations and analyzes of the causes of corporate collapses around the world have highlighted serious regulatory shortcomings, so the reforms in this area marked the beginning of the 21st century (Humphrey, Loft & Woods, 2009). Today, one of the biggest challenges is restoring public confidence in the audit profession, so instead of having a close relationship with the management of the company, it is necessary to establish trust between the auditor and the investment public (Staubus, 2005). In this business, all stakeholders share responsibility - the state through regulation and its effective implementation, auditors through the quality of their work, and other entities through the recognition and evaluation of the importance of the audit profession (Aruñada, 2004).

The importance of auditing is simply explained in the preamble to Regulation 537/2014, which states that "the public-interest function of a statutory audit means that a broad community of people and institutions rely on the quality of work of a statutory auditor's or an audit's firm work" (European Parliament and the Council of the European Union, 2014). Audit quality contributes to the orderly functioning of the market by improving the completeness and efficiency of the financial statements. Auditors, therefore, fulfill a particularly important social function (Michas, 2011).

Audit, as a form of external control, is imperatively set up for joint stock companies in all comparative systems. Auditing was first introduced in the UK with auditors being from the audited company, however, this model was quickly changed to external control, with the executors who are independent from the company itself (the auditor cannot be a shareholder in the company whose financial statements are subject to audit), and of the bodies of that company (Vasiljević, 2012).

Since 1996, the European Commission has sought to improve the independence of auditors and, in 2002 it published “Recommendation on Statutory Auditors' Independence in the EU: A Set of Fundamental Principles“ (European Commission, 2002). The most important sources of EU law in this area are the Eighth Company Directive and Regulation 537/2014. Regulation 537/2014 establishes requirements for carrying out the statutory audit of annual and consolidated financial statements of public-interest entities, rules on the organization and selection of authorized auditors and audit’s firms by public-interest entities (European Parliament and the Council of the European Union, 2014).

Within the European Union (hereinafter: the EU), audit matters form an integral part of European company law (Jevremović-Petrović, Vasiljević & Radović, 2012). During the EU crisis, in addition to reviewing the role of auditing in the financial sector, a broader initiative has been launched once again, which has confirmed significant weaknesses in practice and the regulatory mechanism (Combarros, 2000). The final result of these activities were new changes to the EU law. Namely, the practice of implementing the Eighth Company Directive of 1984 has shown certain shortcomings, first of all in the field of functioning and control. In this regard, on the proposal of the European Commission in 2004, amendments to the Eighth directive were proposed (Kondić & Vranješ, 2012).

In the EU accession negotiations process with Montenegro, the area of accounting and auditing is in negotiation chapter 6. In addition to the rights of companies (Jocović & Pavlović, 2013), this chapter also contains a part of the financial market regulation (regulation of the securities market, banks, investment funds). Based on an analytical review of Montenegrin company law, on recommendation of the European Commission, the Council of the European Union adopted a Common Negotiating Position for Chapter 6, which sets out four benchmarks which need to be met by Montenegro in order to temporarily close negotiations in this chapter. The fourth benchmark relates to the field of accounting and auditing, and includes the obligation to fully harmonize Montenegrin legislation in the area of corporate accounting and auditing with EU law and to establish an independent and adequately funded body for public oversight and ensure the quality of the obligatory (statutory) external audit of the company (Ministry of European affairs of Montenegro, 2012).

2. Audit in the legal system of Montenegro

The area of audit in Montenegro is in the development phase, with a visible tendency to increase the volume of work of auditors, primarily due to recent legal changes. According to the information provided by the auditing firms based on the request of the Audit Council, in 2018, there are 29 audit firms operating in Montenegro and employing 48 authorized auditors. During 2017, auditing firms carried out 387 audits in accordance with ISAs. Of the total number of audits, 152 audits were carried out in entities of public interest. Total number of audits carried out by the so called “The Big Four” companies (PWC, KPMG, Deloitte, Ernst & Young) is 138, or approximately 36% of the total number of audits. In 2017, 65% of the opinions issued in the audit reports were positive,

25% of the opinions were reserved opinions, while there were 5% of negative opinions and the same percentage of auditors abstained from giving one.

The area of audit in Montenegro is governed by a number of legal regulations. The main source of law in this area since 2005 to the last changes in 2016 was Law on Accounting and Auditing from 2005 (“Official Gazette of Montenegro” No. 69/05, No. 80/08 and No. 32/11). Following a review of positive law by 2016, and given the degree of compliance with the EU law, the following areas were identified as shortcomings that needed to be aligned with the EU law: financial reporting; preparation and presentation of consolidated financial statements; lack of public oversight of auditors and auditing firms; defining thresholds for classification of legal entities and audit obligations for medium-size legal entities; issues of professional ethics, independence, objectivity, confidentiality and maintaining professional secrecy of auditors (Jocović & Milović, 2016).

Montenegro, as a candidate country for EU membership, but also a country that creates a favorable business environment for conducting business operations, has an obligation to comply with EU law. At the same time, it is obliged to take into account the achieved level of economic development and to provide legal certainty to all interested entities through the reform in these professions. With the entry into force of the Law on Auditing (“Official Gazette of Montenegro”, No. 001/17 of 09.01.2017), a new period has started, not only in the legal regulation of this profession, but also in their overall development in Montenegro. Today, in theory and practice, it is dominated by the generally accepted view that the quality of audit regulation has a significant impact on the development of corporate governance as well as on the overall regulatory environment in which business is conducted (Sloan, 2001). Different views of a part of the expert public on numerous issues, as well as the need to solve long-standing problems in a quality manner, in accordance with the EU law and the adopted international expert standards, make this area relevant for research. Countries in the region - Croatia and Slovenia - have had similar experience in the EU accession process (Janković, Ivanković & Jerman, 2010).

Following the debate that followed the adoption of the law in this area, the question which arises in the expert public is whether the new decisions, which are to a great extent in line with EU law, will improve the audit profession in Montenegro? The aim of this paper is to point out certain gaps in the regulatory framework, clearly stating that the first objective - harmonization with EU law, has been achieved. The achievement of this objective of research has been methodologically carried out in various ways – through a detailed analysis of the proposed legal decisions, a comparative analysis with decisions from the EU and countries from the region (Serbia and Croatia), a series of interviews with representatives of professional associations and the competent ministry, insight into the activities of auditing firms (audit reports), and the like. In this regard, the most important provisions of the Law on Auditing will be analyzed further in the text, with the aim to identify certain gaps and point out their consequences to policy makers in this field, and prepare any changes that will lead to further advancement of this profession in Montenegro in the future.

3. Law on Auditing - A Critical Review of Basic Decisions

In addition to adjusting to changes in company law in this area, the goal of adopting the Law on Auditing was to improve the work of the audit profession. On October 21, 2014, the Ministry of Finance launched a public consultation on the Draft Law on Auditing, which lasted until November 30, 2014. The Bill was approved by the Government of Montenegro at its session of March 31, 2016 and submitted to the parliamentary procedure. The most significant improvements in the regulatory framework, compared to the previous period, can be identified in the following areas:

detailed regulation of the conditions and manner of carrying out the audit activities; audit reports and transparency; audit obligations and internal audit issues; regulation of the supervision of the work of audit companies; introduction of Audit Council, and the like (Jocović & Milović, 2016). In relation to the Bill on Auditing, the following issues were raised as potential problems during the public consultation: delay of the audit obligation for medium-size legal entities until the date of EU accession; the issue of membership of the Auditor's Council for Public Supervision (with more representatives from the field); introduction of an obligation to conclude an employment contract for an audit company with at least one auditor, and the like (Jocović & Milović, 2016).

In the process of implementation of new legislation, as well as in the process of their adoption, a number of controversial issues have arisen, which can not be addressed for the time being. This fact leads to legal uncertainty in the audit profession. As an authority with a particular responsibility for the advancement of the accounting and audit profession in Montenegro, the Institute of Certified Accountants of Montenegro through various activities, has initiated debate, but also sought specific solutions to the problems auditors are facing in Montenegro. According to audit section's analysis within the Institute of Certified Accountants of Montenegro, the following are identified as major shortcomings in this sector that require institutional resolution of the problem: not identified audit market; insufficiently precise solutions to the new law - inaccurate determination of who can be the founder of the auditing firm, imprecise term for timely conclusion of the audit contract; insufficient alignment of laws with the rules of the profession (International Standards on Auditing, Directive 2006/43, EU Regulation 537/14 and Code of Ethics); deviation from good auditing practice of justified employment of full-time authorized auditor, especially when he is a signatory or principal partner in the audit; the issue of the independence of the members of the Audit Council; deadlines for compliance with the law. Hence, these are serious problems that require dialogue and finding the optimal solution in favor of further development of the audit profession, without which there is no improvement in corporate governance. The purpose of the analysis below is to review certain legal solutions and to provide an answer as to what direction the solutions should be sought.

3.1 Conditions for carrying out the audit

In Montenegro, audit is carried out by an authorized auditor and the auditing firm, provided they meet the legal requirements. Under Article 7 of the Law on Auditing, authorized auditor is defined as a natural person who holds a licence for carrying out an audit issued in accordance with the law. In this part, the subject of different interpretations is paragraph two of the same article, which stipulates that *an authorized auditor may engage other persons as assistance during the carrying out of the audit, provided that such persons are carrying out auditing activities under the supervision of an authorised auditor*. Therefore, there is a possibility of hiring other person, whose role would be to *assist* with carrying out the audit. Several facts are disputed in this paragraph. First, the meaning of the term *assistance with carrying out the audit* is not defined. Auditing, as a highly professional activity, can only be carried out by persons who meet stringent requirements and who are licensed, which is indisputably established by Article 10 of the Law (Licence Issuing). More specifically, the disputed issue can be formulated as follows - does this term refer to activities that are more administrative in nature and do not require expertise or to performance of professional activities in the audit process? Reading the text of the Law, one can conclude that in this case the legislator tried to regulate the performance of administrative, and by no means professional activities. The main argument for this view is the fact that the law does not define the conditions to be fulfilled by an engaged person *to assist in the audit*. These conditions would refer to the existence of the title of an authorized auditor or prescribing milder conditions (level of education,

previous experience, etc.). On the other hand, if the intention of the legislator was that these activities entail the performance of professional activities, it is a failure that needs to be regulated more closely by prescribing more detailed conditions. The Article states that the only requirement is that the engaged person is supervised by an authorized auditor when carrying out the audit. This condition has also been not clearly defined, as it raises the question of how it proves that supervision has been carried out. Lastly, no answer was given to the question of who determines and how the situation is sanctioned if a person engaged to assist with carrying out the audit, does not carry out the audit under the supervision of an authorized auditor? Furthermore, Article 25 of the Law regulating the conflict of interest of auditors is also linked to this Article. Namely, these persons must not perform managerial duties, nor be members of the Audit Committee, management bodies and supervisory boards, as well as perform managerial tasks in the legal entity where they have carried out the audit, prior to the expiry of one year from the signing of the audit report (Law on Auditing, 2017). By interpreting the above mentioned provisions, it can be concluded that this issue has not been resolved in a quality manner. In addition, the principle itself makes room for numerous possible abuses and needs special attention when controlling the work of the auditor.

3.2 Auditing Firm

One of the most controversial issues is the statutory organization of the auditing firm. The activity of the auditor is performed through the auditing firms, which must employ authorized auditors according to comparative law and practice. Therefore, the quality of work of the profession is mostly achieved through prescribing the obligation to employ a qualified person. Countries from the region regulate this issue in different ways. In Serbia, audit can be carried out by auditing firms that have at least one licensed certified auditor or an independent auditor. However, independent auditor may not perform the audit of a company of public interest, and the audit of the consolidated financial statements. Also, audit of regular annual and consolidated financial statements of large legal persons may be performed by an audit firm that has at least four licensed certified auditors (Law on Audit of Serbia, 2013, Article 23). In Croatia, as well as in Serbia, audit activities can be performed by independent auditors and auditing firms. However, an auditing firm employing fewer than two auditors may not carry out the audit of entities of public interest.

The Law on Auditing of Montenegro defines an auditing firm as a business organization established to conduct auditing activities. First, it should be noted that, like most countries in the region, Montenegrin law does not contain an imperative norm on the obligation to employ a licensed auditor as a prerequisite for carrying an audit. In relation to the auditing firm, the interpretation of the conditions in paragraph 2 of Article 15 is disputable. Namely, in accordance with this Law, an audit may be carried out by an auditing firm established in Montenegro, where: 1. majority of voting rights are vested in authorized auditors, or auditing firms established in Montenegro or in a Member State of the European Union, and 2. majority, and not more than three-quarters of members of the management of the firm, are authorized auditors or auditing firms established in a Member State of the European Union. First, voting rights are in most cases directly related to the share size in the auditing firm. Does it mean that authorized auditors should have a majority voting right or majority of share, or does the above refer exclusively to voting rights? Prescribing that they must have a majority of share which leads to voting right, would be more legally certain. The second item of this Article is also disputable. Specifically, it stipulates that at least the majority, and at most $\frac{3}{4}$ of the members of the management must be authorized auditors. Interpretation of the said provision means the following. In case of an auditing firm established in form of a limited liability company with a mandatory body in Montenegro – executive director, it must form a board

of directors in which at least half of the members must be authorized auditors. Therefore, auditing firms in form of a limited liability company, undertake to have a board of directors. This way, they increase costs and formalization in their work, which renders the concept of liberalization of business activities pointless and presents a serious business obstacle.

3.3 Issuance and revocation of a license for carrying out an audit

One of the most important articles in this law also regulates the licence issuing process. Two facts in this article may be disputable. The first relates to the content of vaguely defined conditions in terms of work experience. Namely, in order to issue a licence for carrying out an audit in accordance with Article 10, an applicant must *hold the professional title of a certified accountant; three years of experience in carrying out auditing activities, with a minimum of two years in carrying out auditing activities under the supervision of an authorized auditor and that was not convicted of a crime that makes such person unworthy to carry out the activities in the area of auditing*. What is arguable in this part is how to prove experience in auditing activities. The law regulates much more precisely the requirements regarding the work experience to be fulfilled by an internal auditor - a person with at least a seventh-level higher education (VII) qualification, with 240 CSPK credits and at least three years experience in accounting or auditing activities (Law on Auditing, 2017, Article 33). It also raises the question on the manner for determining (the evidence) the fulfillment of the requirements regarding work experience. First, is it arguable how to determine three years of work experience (employment or some other form of engagement)? Second, how to prove the requirement of at least two years of experience in auditing activities under the supervision of a authorized auditor? Is it a certificate issued by the auditor or some other form of records that auditor is required to keep? In accordance with the Law, the documentation to be submitted with the application for issuing the licence for performing an audit is stipulated by the Ministry, so it is expected that these issues will be regulated more precisely by the by-laws to avoid different interpretations and possible abuses in the process of issuing the licence.

On the other hand, licenses are issued by the competent Ministry for an indefinite period of time and are entered in the register of authorized auditors (Law on Auditing, 2017, Article 10). According to the Law, a license may be revoked in the following cases: if it is determined that the information on the basis of which the license was issued is false; in the event of revocation of the certificate; if an authorized auditor carries out auditing activities in an unprofessional manner and incompliant with the ISA and the Code of Ethics for Professional Accountants; if he performs auditing activities contrary to the provisions of the law; if he does not eliminate irregularities, that is, does not implement additional measures within the time limit specified in the control procedure and if he does not meet other conditions prescribed by this Law. The Law provides that in the event that one of the above conditions is met, the Ministry shall revoke the license of the authorized auditor. In this section, it is arguable whether the procedure for revocation of a license is conducted, who initiates it how, or the license is revoked automatically (what is the intention of this Article).

3.4 Audit reports and transparency in performing auditing activities

The Eighth Directive introduced the obligation for EU Member States to require the application of International Accounting Standards on Auditing which were adopted by the European Commission. This way, a standardization process is introduced for this activity at the level of EU and individual Member State. The Directive prescribes the obligation to sign the audit report, at least by an authorized auditor who performs the statutory audit on behalf of the auditing firm (Council of the EU, 1984). The law stipulates that the audit report must be prepared in writing and

signed by an authorized auditor on his own behalf, that is, on behalf of the auditing firm. The financial statements that are object of the audit are attached to the auditor's report. The law also provides that if more than one authorized auditor is involved in the audit process, the audit report is signed by all authorized auditors (Law on Auditing, 2017, Article 24). On the other hand, auditing firm, or authorized auditors, who are carrying out obligatory audit are required to submit a transparency report to the Audit Council by March 31 of the current year for it to be published on the Audit Council website. In relation to this article, the subject of attention may be its scope. Specifically, this issue is subject of the Regulation, not the Eighth Company Directive. According to the Regulation, authorized auditors and auditing firms that carry out the audit of public-interest entities are required to prepare transparency report (European Parliament and the Council of the European Union, 2014, Article 13). The law prescribes the obligation to keep audit records for at least six years, starting from the year the audit relates to.

3.5 Audit Obligation and Audit Committee

The Law on Auditing has significantly expanded the scope of legal entities subject to audit. According to Article 29, audit is obligatory for: 1) entities of public-interest; 2) medium-size legal entities; 3) parent legal entities, which, together with subsidiary legal entities, fulfill the conditions for classification in the group of medium-size legal entities; 4) investment companies; 5) investment funds; 6) investment fund management companies; 7) voluntary pension funds; 8) voluntary investment fund management companies and 9) other collective investment schemes. One of the most controversial issues in the public consultation process concerned the scope, that is, the obligation of audit, for medium and parent legal entities. Namely, in relation to the obligatory audit for medium and parent legal entities, the Bill provided for a delayed application, starting from the date of Montenegro's accession to the EU. During the public consultation, it was pointed out that a different solution should be considered and enforced from the day of the adoption of the law. In the final text of the Law, this solution was changed in such a way that medium-size and parent legal entities became entities subject to obligatory audit. Regardless of the compliance of the said decision with the rules of the Eighth Directive, the question arises as to whether the said solution contributes to the realization of investor protection interests or to the increase of the work of auditing firms?

Regulation 537/2014 emphasizes the importance of the audit committee in a number of different places - when hiring a new auditor, to ensure independence, as well as in the dialogue and exchange of information with the auditor or auditing firm. It is also stated that when submitting a proposal to the General Assembly Meeting, the competent authority (Board of Directors or Supervisory Board) should explain the position of the audit committee (European Parliament and the Council of the European Union, 2014, Preamble to Regulation, item 18). In practice, one of the most serious threats to the independence of authorized auditor or auditing firm may be the level of fees received from one audited entity. Because of this, it is necessary to provide mechanisms so that the level of fees does not depend on the outcome of the audit. In the process of monitoring this potential problem, Regulation 537/2014 emphasizes the work of the audit committee. Specifically, if an authorized auditor or auditing firm becomes excessively dependent on a single client, the audit committee should decide, on the basis of proper grounds, whether the authorized auditor or auditing firm may carry out the statutory audit. In making such a decision, the audit committee should consider, *inter alia*, the threats to independence and the consequences of such a decision. Also, the quality of the statutory audit for the audited entity would be particularly enhanced if the communication between the statutory auditor or the auditing firm on the one hand, and the audit

committee on the other, was reinforced. Further to the regular dialogue during the statutory audit, it is important that the statutory auditor or auditing firm submit to the audit committee an additional and more detailed reports on the results of the statutory audit (European Parliament and the Council of the European Union, 2014, Preamble to Regulation, item 18). The Law on Auditing provides that the audit committee is required in all legal entities subject to audit. Article 31 defines the competencies of the audit committee. Nevertheless, business practice, and above all, the achieved degree of corporate governance, should provide an answer as to whether this principle will achieve its very purpose and the essential role it is given by the European company law or, like many principles in our legal system, will remain only a non-enforceable legal norm (Turley & Zaman, 2004).

3.6 Control and improvement of the work of the audit profession

The public oversight system is a legal and institutional mechanism which introduces control in the performance of audit activities. The Eighth Directive (Council of the EU, 1984, Article 32) provided for an obligation for Member States to establish an effective system of public oversight for authorized auditors and auditing firms on the following principles: principle of obligation (all authorized auditors are subject to public oversight); impartiality and expertise (the public oversight system is governed by non-practitioners who are knowledgeable in the areas relevant to statutory audit); the existence of investigatory powers and taking actions; transparency; financial independence (the system of public oversight shall be adequately funded and free from any undue influence by auditors or auditing firms). Regulation 537/2014 highlights several important facts regarding the oversight of audit firms. First, the need for their independence from the audit profession. Second, to have adequate capacities, expertise and resources to perform quality oversight. Third, the need to obtain the authorization to perform quality control (obtaining information, inspection, etc.). Numerous financial scandals and investigations being carried out, with auditors or omissions in their work at the centre, have raised the need for reform of the audit profession through the establishment of a work control system, as one of the priority issues in this area. Control of the work of the audit profession was one of the key starting points in drafting the reform of the Eighth Company Directive. The Directive requires the establishment of a control system but does not impose an obligation on Member States to designate the bodies responsible for carrying out controls. Furthermore, in addition to national legislation and European law in this area, it is important to mention the professional standards of audit which are adopted by international organizations, and which make an integral part of the national legal system. Quality control in the audit profession is defined by two standards - International Standard on Quality Control (ISQC1) and the International Standard of Auditing (ISA) 220. Finally, it is important to mention IFAC's Code of Ethics for Professional Accountants and Auditors.

The Law on Auditing is in line with the above solutions of EU law. The Law on Auditing of Montenegro, entrusted the Ministry of Finance to conduct oversight of the work of auditing firms. This decision is in line with the provisions of Article 26 (1) of Directive 2014/56 EC, which refers to the need to establish an effective system of public oversight for authorized auditors and auditing firms (Kondić & Rajković, 2016). According to the law, the competent ministry supervises its implementation, and the subject of control includes, among other things, determining the following obligations of the auditor or auditing firm: whether the audit is carried out in compliance with the law, International Auditing Standards and rules of the audit profession; meeting the requirements of independence; the existence of quantity and quality of engaged resources employed in compliance with auditing standards; fulfillment of the conditions for issuing licenses for carrying

out the audit, or for obtaining a license; compliance with the ethical requirements laid down in the Code of Ethics for Professional Accountants and the method for calculating audit fees.

In Montenegro, the monitoring and improvement of auditing practices is carried out by the Council for Auditing. In public, the decision was approved as affirmative, but justified criticism could be heard in relation to the composition of this body, as the composition did not represent audit profession adequately. Namely, Article 39 of the Law stipulates that members of the Council for Auditing may be persons who meet the following criteria: VII level of education; at least five years of work experience in accounting activities, auditing, finance or law; has not been convicted of a crime that makes him unworthy to perform activities within the competence of the Council. During the public consultation, it was suggested that in addition to the above, an additional criterion be introduced - the existence of a certificate on par with a certified accountant. Also, a controversial issue was the nomination of the members of this body - should all members be proposed by the Minister of Finance (proposed solution) or should professional organizations be able to nominate candidates for membership? The Law adopted a decision that the Audit Council has five members appointed and dismissed by the Government, at the proposal of the Minister of Finance (Law on Auditing, 2017, Article 36).

4. Auditing activity and company legislation in Montenegro

In addition to the Law on Auditing, which regulates this matter as *lex specialis*, the subject matter of audit in comparative law, as well as in Montenegro, is also subject to regulation in company laws. Article 47 of the Law on Business Organizations regulates several important issues in relation to auditing: the time of carrying out the audit, the manner of carrying out the audit and selection of the auditor, the conclusion and termination of the contract with the auditor, as well as the rights and responsibilities of the auditor.

The Law on Business Organizations provides that the financial report of the organization are audited upon the expiration of the financial year, and prior to holding the general meeting of shareholders, and that the auditors are elected by the general meeting of shareholders for a term specified in the charter but not exceeding one year (Law on Auditing, 2017, Article 47). In addition, the rules on convening the general meeting of shareholders are important for the period within which the audit report must be prepared. Specifically, the Law on Business Organizations stipulates that the agenda, draft decisions and documentation related to decisions must be accessible to the shareholders of the company twenty days prior to the session at which these issues will be discussed (Law on Business Organizations, 2011, Article 36, Paragraph 7).

From the above, it follows that the audit report and the documentation on the basis of which it must be accessible to shareholders for twenty days prior to the meeting at which the audit report will be discussed, and therefore the auditor must be informed of the date on which the meeting is called. The possibility to access the auditing report prior to the session at which it will be discussed is a form of "prior" transparency that is of particular importance to shareholders and the exercise of their non-property rights.

When it comes to the audit and preparation of the audit report, once the auditor has been selected, it is the obligation of the organization and some of its bodies to make accessible to the auditor all the reports it deems necessary for the preparation of the final report, while the auditor is obliged to prepare the report within the period stipulated in the contract he concluded with the organization whose reports are being audited. The rights of the auditor are set quite broadly through the

provisions of Article 47 paragraph 10 and Article 47a paragraph 1 of the Law on Business Organizations, so that the auditor may request the board of directors and management to provide him with all the documentation required to make a report, and be entitled to attend the annual general meeting and give explanations for the opinions expressed in the report. On the other hand, the auditor is liable for abuse of his position and authorizations, in particular if he intentionally or by negligence contributes to the fraudulent activity of the manager or publishes or reveals contrary to law business secrets of the client to unauthorized persons or in another manner contributes to the occurrence of damage to the company and he may be sued for damage compensation together with members of the Board of Directors and the Executive Director. Such a legal formation has, in practice, proved to be general framework that the audit contract concluded by company and auditor must be based on, but in addition to the general provisions, such contract must also contain a number of special ones. Due to the specific nature of the companies, activities and conditions in which the companies whose financial statements are being audited operate, each individual contract should contain as essential elements, the deadlines within which management and board of directors must make accessible the documentation necessary for the preparation of the report as essential elements, and the period within which the auditor must prepare the report.

It is the responsibility of the auditor to audit the annual financial statements of the company in accordance with the applicable accounting standards, and to report on the performed audit to the general meeting. The prepared auditor's report is read at the Annual General Meeting and must be accessible to all shareholders present at that General Meeting. In addition, the auditor must attend a meeting at which the auditor's report is adopted in order to explain to shareholders any concerns regarding the report.

5. Conclusion

The existing legislation provides a good foundation for further advancement of the audit profession. Undoubtedly, current integration processes will also contribute to increasing competition in the relatively small audit market in Montenegro. With the introduction of audit obligations for medium-size legal entities, the state has made room for the survival and further development of audit firms in Montenegro. With the new legal solutions, the state has taken on a number of obligations that can enhance the work of the audit profession, such as: licensing authorized auditors, issuing approvals to carry out audits and, ultimately, public oversight of the audit profession.

Therefore, the time of implementation of legal decisions and the practice of auditors should contribute to the overall improvement of the business environment in this area. On the other hand, the audit profession, through the powers granted by new legislation, has a special obligation - to restore public confidence in the quality of its financial statements. Considering the performed analysis of the adopted regulations in the field of audit, the following issues need to be addressed in the following period: the need for more precise and more quality regulation of the conditions for carrying out the audit, the need to create legal certainty through more precise standardization of the conditions and procedure for issuing and revoking the license to carry out audit, and further strengthening the system of public oversight in the field of auditing by reviewing the need for representation of the audit profession in its composition and operation.

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