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Amendments to the Accounting and Auditing Law

The amendments to the Accounting and Auditing Law from July of this year have introduced several important novelties into the regulating of these fields in the Republic of Serbia. First of all, these two fields have been separated, so now instead of one law governing both accounting and auditing we have two laws, one governing accounting and the other governing auditing.

It appears at first glance that particular benefit from this separation will be felt by auditing houses and auditors themselves, inasmuch as the regulations governing them are more encompassing than in the previous law, which, we hope, will contribute to the further development of auditing in the Republic of Serbia. As most business entities are not so concerned with what is new in regulations governing auditors and auditing houses as they are with the segments of the new Auditing Law that refer to their obligations with respect to auditing, in this text we shall focus on those latter amendments.

However, let's start from the beginning, from the novelties in the Accounting Law. The new Accounting Law contains several important specifications as compared to the old law. For instance, it specifies exactly what each regular financial statement should contain. Regular annual financial statements of legal entities that apply IFRS, or IFRS for SMEs, comprise a balance sheet, profit and loss statements, statement of other business results, statement of changes in equity, cash flow statement and notes to financial statements. The same goes for consolidated annual financial statements as well. Regular annual financial statements of other entities comprise a balance sheet, profit and loss statement and notes to financial statements. Regular annual financial statements for micro-entities comprise a balance sheet and profit and loss statement.

Micro-entities are another novelty in the Accounting Law. Thus companies will be classified into 4 categories according to the new Law. Micro-entities are those entities that do not exceed two of the following criteria:

1) average number of employees 10;

2) business revenue up to EUR 700,000 in RSD equivalent;

3) average value of business assets (calculated as the arithmetic mean of the value at the beginning and at the end of the fiscal year) up to EUR 350,000 in RSD equivalent.

Small entities are those entities that exceed two of the criteria for micro entities, but do not exceed two of the following criteria:

1) average number of employees 50;

2) business revenue up to EUR 8,800,000 in RSD equivalent;

3) average value of business assets (calculated as the arithmetic mean of the value at the beginning and at the end of the fiscal year) up to EUR 4,400,000 in RSD equivalent.

Medium-sized entities are those entities that exceed two of the criteria for small entities, but do not exceed two of the following criteria:

1) average number of employees 250;

2) business revenue up to EUR 35,000,000 in RSD equivalent;

3) average value of business assets (calculated as the arithmetic mean of the value at the beginning and at the end of the fiscal year) up to EUR 17,500,000 in RSD equivalent.

Large entities are those entities that exceed two of the criteria for medium-sized entities.

The next important specification is in the part regulating generally accepted accounting principles. According to this segment of the new law, measurements of posts in annual financial statements of entities should be made in accordance with the following general accounting principles:

1) going concern assumption;

2) measurement methods applied consistently from year to year;

3) principle of caution applied to measurements, particularly:

(1) balance sheet reflects liabilities from the current or previous fiscal years, even if such liabilities become evident only between the date of the balance sheet and the date of its preparation;

(2) all depreciations are taken into account, regardless of whether the fiscal year ended with profit or loss;

4) all income and expenditures relating to the fiscal year are taken into account, regardless of the date of their collection or payment;

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5) separate recognition of assets and liabilities;

6) opening balance for each fiscal year must be equal to the closing balance for the previous fiscal year.

Exceptionally, deviations from general accounting principles are permitted only when applying certain IFRS, or IFRS for SMEs, and such deviations and the reasons therefore must be disclosed in the notes to the financial statements, including an assessment of the effects thereof on the assets, liabilities, financial position and profit or loss of the entity or entrepreneur.

Finally, it is specified which entity is to apply what, as follows:

(1) For recognition, measurement, presentation and disclosing posts in financial statements, large entities, entities obliged to prepare consolidated financial statements (parent companies), public companies, or companies preparing to become public, in compliance with the law governing the capital market, regardless of size, are to apply IFRS.

(2) For recognition, measurement, presentation and disclosing posts in financial statements, small and medium-sized entities are to apply IFRS for SMEs; however medium-sized legal entities may decide to apply IFRS in which case they are obliged to apply IFRS continuously, unless they become a small entity in compliance with the law.

(3) For recognition, measurement, presentation and disclosing posts in certain financial statements, micro and other entities regardless of size are to apply bylaws enacted by the minister in charge of finance matters, based on general accounting principles; however these entities may decide to apply IFRS for SMEs in which case the are obliged to apply IFRS for SMEs continuously.

After this overview of the most significant novelties in the Accounting Law, we will now reflect on the novelties in the Auditing Law. The most important issue from the viewpoint of business entities is certainly the question of who is obliged to conduct legal audits. According to the new Auditing Law, an audit is compulsory (legal audit) for annual financial statements of large and medium-sized legal entities, public companies in compliance with the law governing the capital market regardless of size, and for all entities or entrepreneurs whose revenue for the last fiscal year exceeded EUR 4,400,000 in dinar equivalent, as well as for parent companies preparing consolidated financial statements. Another interesting novelty is the obligation of companies of public interest (except those that have bodies with the competencies of Audit Committees under separate regulations, and those that are subsidiaries, or company group members who have an Audit Committee at company level) to have an Audit Committee (committee for monitoring business operations). The Audit Committee should comprise no less than three members appointed in compliance with the law governing companies.

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