

New Law on Accounting, Financial Reporting and Audit

July 2018



A new Law No. 06/L-032 on Accounting, Financial Reporting and Audit was approved on 30 March 2018 by the Parliament of Kosovo abrogating Law No. 04/L-014 on Accounting, Financial Reporting and Audit.

The new Law regulates the accounting and financial reporting of business enterprises, audit requirements, the competences and responsibilities of the Kosovo Council for Financial Reporting (KCFR), qualifications for professional accountants, licensing of auditors, audit firms and professional accounting associations.

This Law harmonises the national Kosovo legislation with the directives of the European Union on statutory audits of annual accounts and consolidated accounts and on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings.

Scope of Law No. 06/L-032

The provisions of the new are binding to all registered business organizations and which conduct their activity in the Republic of Kosovo, according to the legislation in force, except for the Central Bank of Kosovo and organizations licensed by the Central Bank of Kosovo.

Classification of enterprises for financial reporting and audit purposes

The new Law increases the limits for classification of enterprises among categories and introduces limits for classification of groups of enterprises for financial reporting and audit purposes.

For the purpose of financial reporting and audit, enterprises are classified among the following categories on the basis of certain indicators determined on the last day of the previous financial year.

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Micro-enterprises are enterprises that do not exceed the limits of at least two of the following criteria:

- Net annual turnover – EUR 700,000
- Total assets – EUR 350,000
- Average number of employees during the year – 10

Small enterprises are enterprises which are not micro-enterprises but do not exceed more than two of the following criteria:

- Net annual turnover – EUR 8 million
- Total assets – EUR 4 million
- Average number of employees during the year – 50

Medium-sized enterprises are enterprises that are neither micro-enterprises nor small enterprises and do not exceed two of the following criteria:

- Net annual turnover – EUR 40 million
- Total assets – EUR 20 million
- Average number of employees during the year – 250

Large enterprises are those enterprises which at their balance sheet dates exceed at least two of the following three criteria:

- Net annual turnover – EUR 40 million
- Total assets – EUR 20 million
- Average number of employees during the year – 250

Apart from the categories for individual business enterprises, the new Law also defines the criteria for classification of groups of business enterprises in small groups, medium-sized groups and large groups.

The criteria of classification for groups are the same as the as per the individual business enterprises and are based on the consolidated indicators.

Applicable accounting standards

Large enterprises and large groups must apply full International Financial Reporting Standards (IFRS) for accounting and financial reporting purposes.

Small and medium enterprises and small and medium groups must apply IFRS for SME for accounting and financial reporting purposes. However, they are allowed to voluntarily apply full IFRS by giving a prior written notice to the KCFR.

The reporting of micro-enterprises will be regulated by sub-legal acts to be issued by the KCFR.

Documents accompanying the financial statements

Large business enterprises and large groups must attach the following documents to their financial statements:

- Statement of Compliance
- Management Report
- Corporate Governance Statement which is to be a separate part of the Management Report.

Small and medium-sized enterprises and small and medium-sized groups exceeding the net annual turnover of EUR 4 million must attach a Statement of Compliance to their financial statements.

Signature of the financial statements

The financial statements of enterprises and groups which are classified as small, medium-sized and large in accordance with this Law must be signed by the Executive or General Director and by the Finance Director or Chief Financial Officer and/or the Certified Accountant.

Requirements for Audit Committee and Internal Audit

In accordance with the new Law, public interest entities must establish an audit committee with independent membership of non-executive directors, where one of the members of the audit committee should have working experience in accounting and finance. In addition, such entities should have an internal auditor.

Statutory audit and statutory review of financial statements

Based on the new Law, the following entities are to undergo a statutory audit:

- All large enterprises and large groups
- Small and medium enterprises and small and medium groups exceeding the net annual turnover of EUR 4 million

Business enterprises which have a statutory audit obligation must appoint an audit firm or auditor not later than within the last 3 months before the end of the reporting period for which the statutory audit is required in accordance with this Law.

Based on the new Law, the following entities are to undergo a statutory review:

- Small and medium enterprises and small and medium groups that do not exceed the net annual turnover of EUR 4 million.

Audit rotation

The new Law introduces audit rotation requirements of maximum 10 years and a cool-off period of 4 years applicable for large enterprises as well as medium and large groups.

Submissions to the KCFR

Business enterprises that have not conducted any business activity during the financial year must submit a declaration of inactivity to the KCFR by 31 March of the year following the year of reporting.

Business enterprises must submit their financial statements together with any accompanying documents as required by this Law to the KCFR within 30 April of the year following the year of reporting, in both hard copy and electronic format.

Groups of enterprises must submit their consolidated financial statements together with any accompanying documents as required by this Law to the KCFR within 30 June of the year following the year of reporting, in both hard copy and electronic format.

Business enterprises and groups classified as medium or large in accordance with this Law must also submit to the KCFR the decision on the approval of the financial statements and the decision on the proposal for distribution of profits or losses if these are not part of the financial statements.

Financial information for statistical purposes

All business enterprises as defined in this law must submit to the Kosovo Agency of Statistics the statement of financial position, profit or loss statement and additional information by 30 April of the year following the year of reporting for statistical and other similar purposes.

The format and content of the additional information will be determined by a sub-legal act issued by the Ministry of Finance.

Storage of documents

In accordance with the new Law, entities are obliged to maintain the documentation in accordance with the following time limits:

- Journal, general ledger and supporting books shall be stored for at least 10 years, whereas this period begins from the last day of the financial year
- Payroll lists are stored indefinitely
- The accounting documents on the basis of which the accounts are kept must be stored for at least 5 years
- Sales books or ancillary forms and related documents, documents related to the payment activity are stored for at least 3 years.

Report on payments to governments

Large enterprises and public interest entities that carry out activities in the areas of exploitation of natural resources such as minerals, oil, natural gas, trees, water, sand, gravel, stones and other natural

resources must prepare and publish an annual report on payments to the central and local governments.

Other provisions

The Law introduces some new provisions in the following areas:

- Publication of transparency report by audit firms
- Publication of the register of auditors and audit firms by the KCFR
- Establishment of the Public Oversight Board by the KCFR.

Penalties for non-compliance

In case of non-compliance with the provisions of the new Law, business enterprises, professional accounting associations, the responsible person of business enterprise/professional accounting association, audit firms and auditors are subject to penalties ranging from EUR 500 up to EUR 30,000 depending on the nature of non-compliance.

If the payment of the penalty is performed within 3 days from the date that the penalty is imposed, there would be a reduction of up to 50% of the amount.

Any penalties may be appealed to the KCFR within 30 days from the date of receiving the decision on penalties imposed.

All penalties imposed must be published and updated, depending on the appeal procedures, on the KCFR website no later than 3 days from the moment of issuance.

Entry into force

Law No. 06/L-032 on Accounting, Financial Reporting and Audit is published in the Official Gazette on 19 April 2018 and enters into force on 1 January 2019.

The current applicable sub-legal acts will continue to remain in force provided that they are not in contradiction with the provisions of the new Law and until the issuance of new sub-legal acts for implementation of this Law.

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