

***BUSINESS LAW, ACCOUNTING AND AUDIT
REQUIREMENTS IN KOSOVO***

TYPES OF BUSINESS ENTITIES

According to Law No. 06/L-016 “On Business Organizations” published in the Official Gazette on 24.05.2018, the business entities that may be registered with the Kosovo Business Registration Agency (the “Registry”) are as following:

- » Individual Business – Biznes Individual
- » General Partnership – Ortakeri e Pergjithshme
- » Limited Partnership – Shoqeri Komandite
- » Limited Liability Company – Shoqeri me pergjegjesi te kufizuar
- » Joint Stock Company – Shoqeri aksionare

Apart from the above forms of establishment, foreign business organizations may also, upon registration with the Registry, conduct business in Kosovo through a branch office, or establish its representative office in Kosovo. The representative office may not engage in business activities in Kosovo and may only be registered for the purpose of conducting market research, engagement in marketing and promotional activities, and representation of the foreign business organization.

The branch office and the representative office are not separate legal entities, consequently, rights and obligations pertaining to the branch office or representative office shall be deemed to pertain to the parent company.

To establish a branch in Kosovo, a foreign business organization through its duly authorized persons, should sign and submit a standard application form, a decision to establish a foreign business organization containing information and details about the organization, capital structure and scope of activity of the parent company and/or of the branch, the registration certificate of the parent company in the country of origin and the charter of the parent company.

In case the foreign company seeks to conduct business in Kosovo through a wholly owned subsidiary (instead of a branch) a new company incorporated under the provision of the Kosovo legislation should be established.

The establishment of a representative office requires the submission to the Registry of the proof of registration of the foreign business organization in its place of origin and the decision of the foreign business organization to establish a Representative Office in Kosovo, containing information such as the official name and registration number of the foreign business organization in the country of origin, address and business activities in Kosovo, name and addresses of managers or directors, and authorized representatives and whether they represent the representative office jointly or severally, etc.

Below are the types of organization of business available under current Kosovo company legislation.

Individual Business

A natural person, who is not an agent or an employee of another business organization, is engaged in commerce. A natural person acting as a personal business enterprise whether registered or not, shall have unlimited personal liability and will be held liable for all debts incurred in the course of his acting as such to the full extent of his sizeable assets. A personal business enterprise for the purpose

of conducting an economic activity may choose to register or not with the Registry. To register a personal business enterprise the owner shall sign and submit to the Registry a standard form containing information and details about organization and purpose of such business. If the registered agent is not the owner, the latter should attach the written consent of the registered agent to serve in such capacity.

General Partnership

A business organization that exists as a result of an association of two or more persons and/or companies for the purpose of engaging in commerce. The persons who from such partnership are considered as general partners. Partners are jointly and severally liable for the debts and other obligations incurred by the general partnership to full extent of their assets. A general partnership may come to existence either upon registration or upon conducting the activity in Kosovo without completion of such registration or upon conducting the activity in Kosovo without completion of such registration with the Registry. To register a general partnership, a general partner or an authorized person shall sign and submit to the Registry a standard application form and the “general partnership agreement” containing information and details about the organization and purpose of the partnership and must attach to the agreement, the written consent of the authorized representative to serve in such capacity.

Limited Partnership

Consists of at least one general/unlimited partner, and at least one limited partner. The general/unlimited partner(s) is (are) liable without limitation for the debts of the limited partnership. The limited partner(s) is (are) liable only to the extent of its (their) contribution(s) to the limited partnership. A limited partnership shall come to existence only upon registration with the Registry. To register a limited partnership, a general partner or an authorized person shall sign and submit to the Registry a standard application form and a “limited partnership agreement” containing information and details about the organization and purpose of the partnership, copy of the company’s regulation, and a written consent of the authorized representative to serve in such capacity.

Limited Liability Companies

Limited liability company is a form of company where the liability of the shareholders for the company debts is limited to the amount of their contribution in the share capital of the company. There is no statutory minimum share capital required. A limited liability company comes to existence upon registration to the Registry. To register a limited liability company, a founder shall sign and submit to the Registry a standard application form, the charter of the company, the act of establishment/memorandum of incorporation and the written consent of the authorized representative to serve in such capacity. The limited liability company is governed by the shareholders assembly and by the director or managing directors. The limited liability company can create and hold a board of directors if this is regulated through the company agreement and the charter.

Joint Stock Companies

A Joint-Stock Company may have any number of shareholders holding common and preferred shares. It may conduct a public offering of its shares pursuant to such conditions as the law may require. The

minimum capital required to establish a joint stock company is EUR 10,000. A Joint Stock Company comes to existence upon registration to the Registry. To establish and register a Joint Stock Company the founder shall sign and submit to the Registry a standard application form, the charter, the agreement or regulation of the company and a written consent of the authorized representative to serve in such capacity. The Joint Stock Companies are governed by the general assembly of shareholders, the board of directors and the officers.



ACCOUNTING REGULATIONS

The Parliament of Kosovo has approved the Law No. 06/L-032, dated 30.03.2018 “On Accounting, Financial Reporting and Audit” (the “Accounting Law”) which is in force from 1 January 2019.

The Accounting Law regulates the accounting and financial reporting system of business organizations in Kosovo, audit professional accountants, licensing of local and foreign auditors and audit firms, professional accounting organizations as well as the powers and responsibilities of Kosovo Financial Reporting Council/ (“KCFR”).

The law, harmonizes Kosovo legislation with the Directives of the European Union (EU) 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.

As per the Accounting Law, companies are classified into four groups:

1. Large enterprises are those enterprises which at their balance sheet dates exceed at least two of the following three criteria:
 - i. The net annual turnover of EUR forty (40) million;
 - ii. Statement of financial position of EUR twenty (20) million;
 - iii. The average number of employees during the financial year two hundred and fifty (250).
2. Medium enterprises are enterprises that are neither micro-enterprises nor small enterprises, but shall not exceed two out of three of the following criteria:
 - i. The net annual turnover of EUR forty (40) million;
 - ii. Statement of financial position of EUR twenty (20) million;
 - iii. The average number of employees during the financial year two hundred and fifty (250).
3. Small enterprises are enterprises which are not microenterprises but shall not exceed more than two (2) of the following criteria:
 - i. The net annual turnover of EUR eight (8) million;
 - ii. Statement of financial position of EUR four (4) million;
 - iii. The average number of employees during the financial year fifty (50).
4. Micro enterprises are enterprises that do not exceed the limits of at least two of the following criteria:
 - i. The net annual turnover seven hundred thousand (700,000) euro;

- ii. Statement of financial position of EUR three hundred and fifty thousand (350,000) euro;
- iii. The average number of employees during the financial year ten (10).

Despite the above-mentioned categories for business enterprises, the Law also specifies the criteria for classification of groups of business enterprises in small groups, medium-sized groups and large groups which are the same as the as per the individual business enterprises and are based on the consolidated indicators.

Large enterprises / groups entities shall prepare general purpose financial statements in accordance with the International Financial Reporting Standards (IFRS) issued from the International Accounting and Assurance Standard Board ("IAASB") and approved by KCFR. Attached to the financial statements shall also be submitted the following documents: (i) Statement of Compliance; (ii) Management report; and (iii) Corporate Governance Statement which is to be a separate part of the Management Report.

Medium and small enterprises / groups have to prepare their financial statements in accordance with the IFRS for SME. Attached to the financial statements, enterprises exceeding the net annual turnover of EUR 4 million must attach (i) a Statement of Compliance and (ii) audit opinion. Financial reporting for micro enterprises shall be regulated by a special sub legal administrative instruction to be issued by KCFR.

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.

In accordance with the law, public interest entities within their corporate governance structure shall establish a statutory auditing committee with independent membership of non-executive directors, where one of the members of that committee having a working experience in accounting and finance. Additionally, such entities should have an internal auditor.

All enterprises, irrespective from their size are obligated to maintain the accounting books in accordance with the following time limits:

- » Journal, general ledger and supporting books shall be stored at least 10 years;
- » Payrolls are stored indefinitely;
- » Accounting documents on the basis of which the records are performed should be stored at least five years;
- » Sales books or ancillary form and related documents, documents related to the payment activity are stored at least three (3) years.

Accounting records should be maintained in the official languages of the Republic of Kosovo and in EUR currency. Large and medium enterprises may keep the accounting records in English language,

to the extent that the financial statements are translated into the official languages of the Republic of Kosovo.

Business entities should verify, at least once a year, the existence and evaluation of assets, liabilities, and capital through the inventory process of these items supported with proper evidence.

Annual Financial Statements shall contain the following documents:

- » Statement of financial position;
- » Statement of comprehensive income;
- » Statement of other comprehensive income;
- » Statement of changes in equity;
- » Statement of cash flow;
- » Notes to the financial statements.

The structure and content of the annual financial statements is regulated by a sub-legal act issued by the Minister of Finance, upon the proposal of KCFR.

FINANCIAL STATEMENTS

A business organization that did not conduct any business activity during the financial year and did not record any data on the assets and liabilities in the accounting books, submits to the KCFR the declaration of inactivity for the previous business year by March 31st of the following year.

The general purposes financial statement of the large business entities including the audit report shall be filed with KCFR, not later than 30 April (30 June for consolidated financial statements) of the following year.

Business enterprises must submit their financial statements together with other required documents to 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 other required documents to 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 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.

Stand-alone financial statements should be filed to tax authorities before or on 31 March of the following year.

AUDIT REQUIREMENTS

As per the Accounting Law, statutory audits in Kosovo shall be carried out in accordance with the International Standards of Auditing (“ISA”) and related interpretations, guidance and pronouncements of IAASB.

The Accounting Law provides the following audit requirements:

- » The financial statements of large enterprises/groups shall be audited by auditing firms licensed by KCFR;
- » The financial statements of medium enterprises/groups shall be audited by auditing firms licensed by KCFR;
- » The financial statements of business enterprises that have the turnover less or equal than EUR four (4) million shall be subject to independent auditor revision report in accordance with international Standards for Revision Engagements.

Business organizations which have a statutory audit obligation must appoint an audit firm or statutory auditor at the latest in the last 3 months before the end of the reporting period for which the statutory audit is required. Meanwhile subject to statutory review are small/medium enterprises and groups that do not exceed the net annual turnover of EUR four (4) million.

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



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