

official translation

LAW ON AUDIT

15 June 1999 No. VIII-1227

Vilnius

CHAPTER ONE GENERAL PROVISIONS

Article 1. Purpose of the Law

1. This Law regulates the performance of the audit, the procedure for granting the title of the auditor, professional activities of firms of auditors and certified auditors and supervision thereof, and also the establishment, activities and management of the Chamber of Auditors.

2. Other laws shall be applicable to firms of auditors and auditors only to the extent their activities are not regulated by the present Law.

Article 2. Definitions

As used in this Law:

1. **“Audit”** means an independent examination of the financial statements of an enterprise, institution or organisation (hereinafter referred to as the “enterprise”) and provision of the auditors’ report stating whether the financial statements in all material respects give a true and fair view of the financial position of the enterprise, and of the results of its operations and its cash flows, and whether the financial statements comply with the legal acts regulating financial accounting and preparation of financial statements, and also with generally accepted accounting principles applicable in the Republic of Lithuania.

2. **“Certified auditor”** (hereinafter referred to as the “auditor”) denotes a person who has passed the auditor’s qualification examinations, holds the auditor’s certificate (hereinafter referred to as the “certificate”) and is a member of the

Chamber of Auditors.

3. “**Firm of auditors**” means an enterprise established in accordance with the procedure set out by law and recorded in the list of firms of auditors of the Republic of Lithuania (hereinafter referred to as the “**list of firms of auditors**”).

4. “**Chamber of Auditors**” means a legal person uniting all auditors and functioning based on the principles of the auditors’ self-governance.

5. “**Auditors’ Code of Conduct**” means a document approved by the meeting of members of the Chamber of Auditors setting out the standards of professional conduct for all auditors to abide by.

6. “**National Auditing Standards**” means a series of regulations, rules and instructions approved by the Chamber of Auditors, which regulate the process of the audit and which must be complied with by all auditors when performing the audit.

7. “**Auditor’s report**” means a document signed for and on behalf of the firm of auditors by the head of the firm and the auditor where, in addition to other things, the auditor expresses his opinion about the financial statements of the enterprise.

8. “**Working papers**” means information prepared, gathered or obtained by the auditor for the purpose of assisting in the planning and performance of the audit and providing evidence to support the auditor’s opinion.

1) to verify that the financial statements give, in all material respects, a true and fair view of the financial position of the enterprise, and of the results of its operations and its cash flows;

2) to verify whether the financial statements of the enterprise are prepared in compliance with the legal acts of the Republic of Lithuania on accounting and with the generally accepted accounting principles.

CHAPTER TWO

AUDITORS

Article 5. Procedure for Granting the Title of the Auditor

1. The title of the auditor shall be granted to persons after they pass the auditors' qualification examinations or have their knowledge tested and are sworn in as auditors.

2. The auditors' qualification examinations and knowledge tests shall be

they have:

- 1) a University degree;
 - 2) experience of at least 3 years as an auditor's assistant with a firm of auditors;
 - 3) an impeccable reputation.
7. After failing in the auditors' qualification examinations, a person may repeatedly attempt to pass such examinations only after 6 months. The number of repeated attempts is not limited.
8. The body authorised by the Government shall organise the auditors' qualification examinations at least two times per calendar year.

Article 6. The Concept of Impeccable Reputation

A person is not considered to be of impeccable reputation, and his application to take the auditors' qualification examinations shall be rejected if:

- 1) he has been convicted for a major crime, irrespective of whether or not the conviction has expired;
- 2) he has been convicted and the conviction has not yet expired.
- 3) his auditor's certificate has been cancelled by the advice of the Auditors' Court of Honour.
- 4) he is addicted to drugs, toxic or psychotropic substances or alcohol.
- 5) he has been dismissed by his enterprise, institution or organisation from the position of internal auditor, inspector, accountant or financial officer on the grounds specified in Subparagraphs 6, 7, 8, 9, 11 of Paragraph 1 and in Paragraph 2 of Article 29 of the Law on the Employment Contract.

Article 9. Procedure for the Recognition of Auditors of Other Foreign Countries

1. The Government or a body authorised by it shall approve a list of foreign countries, the highest auditor's qualification granted wherein by such countries' authorised bodies, not lower than that granted in the Republic of Lithuania, shall be recognised in the Republic of Lithuania.

2. Holders of appropriate auditor qualifications granted by the authorised bodies of the countries included in the list approved by the Government or the body

authorised by it, as set out in Paragraph 1 hereof, shall be issued certificates in recognition of their qualifications after they pass the knowledge test. The knowledge test examinations based on subjects of tax or legal legislation regulating enterprise activities shall be conducted in the official language.

Article 8. The Auditor's Oath

1. Before getting the certificate, the would-be auditors shall take the following oath: "I, the auditor (*name, surname*), swear to observe the Constitution of the Republic of Lithuania, its laws and other legal acts, honestly and conscientiously fulfil the duties of the auditor, adhere to the principles of objectivity, independence and confidentiality, continuously improve my professional knowledge and abide by the Auditors' Code of Conduct and the Statute of the Chamber of Auditors."

2. The auditor's oath shall be administer

granting of the auditor's title. Issuance of the certificate or the process of examinations shall be suspended pending the rendering of judgement in the case or termination of the proceedings.

Article 11. Suspension of Validity of the Certificate

The body authorised by the Government may suspend the validity of the certificate:

- 1) on the advice of the Auditors' Court of Honour, for a period of up to 1 year;
- 2) at the written request of the auditor, for a period not exceeding 3 years.

2. The auditor must start his auditing activities within 1 year after being granted the auditor's title.

3. The auditor who fails to start auditing activities within 1 year after being granted the auditor's title shall have to notify the body authorised by the Government and the Chamber of Auditors thereof and submit a written request to suspend the validity of his certificate for a period of 1 year. The certificate shall be deemed suspended from the day the auditor's application is registered with the body authorised by the Government. After the passage of a 1-year period following the suspension of the validity of the certificate, the auditor must start auditing activities or submit a written application requesting to extend the period of suspension of his certificate's validity. The body authorised by the Government may grant an extension of the above period of suspension of the certificate's validity for no longer than 3 years in succession, excluding the year after the issuance of the certificate.

4. The auditor whose certificate has been suspended, wishing to start the activities after the expiry of the suspension period, must submit the following documents to the body authorised by the Government:

- 1) an application requesting renewal of the suspended certificate's validity;
- 2) documents confirming the improvement of their professional qualifications

in accordance with the procedure established by the Chamber of Auditors.

Article 12. Cancellation of the Certificate

The body authorised by the Government shall cancel the certificate:

- 1) upon the auditor's written request;
 - 2) if facts that would have resulted in refusal to allow the applicant to take the auditor's qualification examinations and precluded the issuance of the certificate, transpire after the issuance of the certificate;
 - 3) if circumstances defined in subparagraphs 2 and 4 of Article 6 occur;
 - 4) on the advice of the Auditors' Court of Honour;
 - 5) if the auditor fails to start his audit activities within 4 years from the day the certificate was issued;
 - 6) upon the auditor's expulsion from the members of the Chamber of Auditors;
 - 7) in the event of the auditor's death.
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 3. Shareholders' of taCfirm8.73(of taditors'owhich oprs)6soasuUABtay included:

- 1) auditors;
- 2) firms of auditors;
- 3) firms of auditors of foreign countries, included in the list specified in Paragraph 1 of Article 7 of this Law and approved by the Government or the body authorised by it;
- 4) other legal and natural persons not specified in subparagraphs 1, 2 and 3 hereof.
5. Shareholders of the audit UAB specified in subparagraphs 1, 2 and 3 of Paragraph 4 hereof must hold at least 3/4 of all voting shares.
6. The head of the audit UAB administration must be an auditor or a person who has auditor's qualification granted by authorised bodies of other foreign countries included in the list specified in Paragraph 1 of Article 7 of this Law and approved by the Government or the body authorised by it.
7. Where the Board is formed in the UAB, 3/4 of the members of the Board must be auditors.

Article 14. Third Party Liability Insurance of Firms of Auditors

1. Prior to starting its audit activities, a firm of auditors must take out a third party liability insurance. The contract of insurance shall be concluded in accordance with the procedure set out in the Law on Insurance. General rules for compulsory third party liability insurance of firms of auditors shall be set out by the Government or a body authorised by it.
2. The minimum annual sum of third party liability insurance must amount to at least LTL 50,000.

Article 15. Procedure for Entering Companies in the List of Firms of Auditors

1. A firm of auditors may start its audit activities only after it is entered in the list of firms of auditors.
2. The list of firms of auditors shall be kept by the body authorised by the Government.
3. In order to be entered in the list of firms of auditors, the enterprise shall submit the following documents:

Paragraph 1 of Article 23 of this Law to the body authorised by the Government or has submitted fraudulent data;

Article 18. Independence of Auditors

1. The auditor may only perform audit if he is independent from the client and the enterprise which is being audited.

2. The auditor shall be prohibited from performing audit if the auditor:

1) is related by blood, family or marriage to the head of the administration or chief financial officer, members of the Supervisory Board or the Board of the enterprise which is being audited. Persons who are related by blood or by marriage are spouses (former spouses), children (adopted children), parents (adoptive parents), brothers, sisters (adopted brothers, adopted sisters), cousins, grandparents or grandchildren;

2) manages accounts and prepares financial statements of the enterprise which is being audited;

3) was previously employed by the enterprise which is being audited or by the client and the period from the date of termination of employment relations is less than 3 years;

4) is or has been a shareholder of the company which is being audited and the period from the date of transfer of shares is less than 3 years;

5) is influenced by other conditions that may affect his independence.

Article 19. Rights of Auditors

In performing audit, the auditor is entitled to:

1) select audit procedures at his own discretion, making use of his professional knowledge and experience;

2) obtain documents necessary for the audit from the enterprise which is being audited;

3) demand from the enterprise which is being audited that reference measurements be performed, stocktaking of assets be carried out, other inspection of the assets of the enterprise be conducted and other necessary actions be taken;

4) obtain the required written explanations from employees of the enterprise which is being audited.

Article 20. Obligations of Auditors

The auditor must:

1) honestly fulfil his professional duties. Both while fulfilling his professional duties and after the office hours, the auditor shall be bound by the oath taken and must comply with the requirements of the Auditors' Code of Conduct;

2) comply with laws and other legal acts, national or international auditing standards in performing audit;

3) continuously develop his professional qualifications;

4) keep the information entrusted to him in the course of his professional activities;

5) fulfil other duties provided for by law.

Article 21. Liability of Auditors

The auditor shall be held liable under law for presenting a fraudulent auditor's report.

Article 22. Activities and Rights of Firms of Auditors

The firm of auditors may be engaged in the following activities:

1) conduct of audit;

2) other review and analysis of activities and stocktaking of assets of companies;

3) valuation of assets (if authorisation prescribed by laws and other legal acts has been granted);

4) provision of accounting services;

5) provision of consultations in accounting, taxes and other matters relating to enterprise activities;

6) performance of expert examination of accounting records and financial statements per order of court;

7) performance of bankruptcy administration procedures (upon being issued authorisation prescribed by laws and other legal acts).

2. The firm of auditors may be the founder or shareholder only of those companies whose activities comply with the requirements set out in Paragraph 1 hereof.

3. Having compensated the client, the audited enterprise or any third party for

losses incurred through the auditors' fault, the firm of auditors may have recourse against the guilty auditors.

Article 23. Obligations of Firms of Auditors

The firm of auditors must:

1) upon concluding a contract for audit, appoint a responsible auditor and notify the client and the enterprise to be audited thereof;

2) document audit results by issuing the auditor's report, which is signed by the manager and auditor for and on behalf of the firm of auditors;

3) keep information obtained in the course of audit or while providing other professional services confidential;

4) not communicate to other persons, enterprises or institutions the information obtained in the course of audit, except in the cases established by the law;

5) not use the information collected during the audit in the interests of the enterprise or third persons;

6) provide information about its activities to the body authorised by the Government. The procedure for providing the information shall be set forth by the body authorised by the Government;

7) preserve audit working papers in accordance with the procedure prescribed by the Law of the Republic of Lithuania on Archives.

2. Working papers shall be the property of the firm of auditors. They may not be given to any third persons without the consent of the audited enterprise or the client, and access to them may not be demanded by other bodies inspecting the activities of the firm of auditors or the audited enterprise, except for the body authorised by the Government, which carries out supervision of the activities of the firms of auditors in accordance with the procedure prescribed by this Law. Law enforcement or other authorities may take or examine audit working papers obtained or prepared by the auditor in the course of the audit only according to the procedure established by the Code of Criminal Procedure.

Article 24. Independence of the Firms of Auditors

1. The firm of auditors may not receive for auditing services from one enterprise in which it performs audit the amount of income which could affect its

independence. Annual income received for auditing services from one audited enterprise may not exceed 20% of the total annual income of the firm of auditors for 2 successive years.

2. The firm of auditors may not conclude a contract for the audit of an enterprise if:

1) the client or the enterprise concerned holds shares (contributions) in the firm of auditors;

2) the firm of auditors or its managers hold shares in the enterprise concerned;

3) managers or owners of the firm of auditors (shareholders, general partners of TÛB or KÛB) are related by blood, family or marriage to the owners of the enterprise concerned (shareholders, general partners of TÛB or KÛB) who have at least 1/3 of all voting rights.

Article 25. Liability of Firms of Auditors

1. The firm of auditors shall be held liable for the performance of audit and submission of the auditors' report in accordance with the procedure set out by laws and the contract for audit signed between the firm of auditors and the client.

2. The firm of auditors must compensate the client, the audited enterprise or any third party for any losses incurred by them in accordance with the procedure set out by laws and the contract for audit signed between the firm of auditors and the client.

Article 26. Relations between the Client and the Firm of Auditors

1. The client shall choose a firm of auditors at its own discretion or by way of tender, unless other legal acts provide otherwise.

2. A contract for audit shall be concluded between the client and the firm of auditors in writing.

Article 27. Obligations of Managers of the Enterprise which is being Audited or Persons Authorised by Them

Managers of the enterprise which is being audited or the persons authorised by them must:

1) provide the auditor with documents of and information on the enterprise as

required for the audit;

2) provide the auditor with the calculation and explanations which are considered by the auditor as necessary.

CHAPTER FIVE SUPERVISION OF ACTIVITIES OF AUDITORS AND FIRMS OF AUDITORS

Article 28. Supervision of Activities of Auditors and Firms of Auditors

Supervision of activities of auditors and firms of auditors shall be carried out by the body authorised by the Government.

Article 29. Rights and Obligations of the Body Authorised by the Government in Performing Supervision of Activities of Auditors and Firms of Auditors

1. While performing supervision of activities of auditors and firms of auditors, the body authorised by the Government shall have the following rights:

- 1) to check audit working papers and the methodology for performing audit;
- 2) to request explanations of how the auditors and firms of auditors have performed their work;
- 3) to request explanations from every employee who participated in the performance of audit.

2. Obligations of the body authorised by the Government:

- 1) to investigate the compliance with this Law, the National Auditing Standards and the Auditors' Code of Conduct in the course of audit performance;
- 2) to bring a disciplinary action against the auditor upon ascertaining violations in the professional performance or breaches of the Auditors' Code of Conduct.

Article 30. Grounds for Bringing a Disciplinary Action

1. A disciplinary action may be brought against the auditor for a breach of this Law or the Auditors' Code of Conduct.

2. The resolution to bring an action may be adopted by the head of the body

authorised by the Government or the Committee of the Chamber of Auditors.

3. The head of the body authorised by the Government or the Committee of the Chamber of Auditors shall refer the case to the Auditors' Court of Honour within 14 days of the adoption of decision to bring a disciplinary action against the auditor.

Article 31. Auditors' Court of Honour

1. The Auditors' Court of Honour shall consist of 5 members: 3 auditors and 2 lawyers. Auditors, who are appointed as members of the Court of Honour, must have

year;

2) to advise cancellation of the qualification certificate.

3. Having adopted a resolution to impose penalties specified in Paragraph 1 hereof or the resolution described in Paragraph 2 hereof, the Auditors' Court of Honour must submit the resolution to the body authorised by the Government within 14 days of the adoption of the relevant resolution.

Article 33. Appeals Against the Resolutions Adopted by the Auditors' Court of Honour and the Body Authorised by the Government

The resolutions adopted by the Auditors' Court of Honour and the body authorised by the Government may be appealed against within 1 month of serving of the relevant resolution in accordance with the procedure established by the Law on Administrative Proceedings.

CHAPTER SIX CHAMBER OF AUDITORS

Article 34. Chamber of Auditors

1. The Chamber of Auditors is a non-profit organisation uniting all auditors and implementing the principles of auditors' self-government.

2. The Chamber of Auditors is a legal person having a seal bearing its name and a bank account. The Chamber of Auditors shall be liable for its obligations to the extent of its assets and shall not be liable for the obligations assumed by its members, whereas the members of the Chamber of Auditors shall not be liable for the obligations of the Chamber of Auditors.

3. In its activities the Chamber of Auditors shall be guided by the Constitution of the Republic of Lithuania, this Law, other legal regulations and its own Statute.

Article 35. Establishment and Registration of the Chamber of Auditors

1. The Chamber of Auditors shall be established at the Constituent General Meeting of the members of the Chamber of Auditors.

2. The Statute of the Chamber of Auditors shall be approved at the Constituent Meeting. If the Statute of the Chamber of Auditors is not approved at the Constituent

Meeting, a repeat meeting shall be convened within 30 days.

3. The Chamber of Auditors shall be deemed established on the day of registration of its Statute in accordance with the procedure set by the Government.

Article 36. Statute of the Chamber of Auditors

1. The Statute of the Chamber of Auditors must indicate:

- 1) the name, logo and address of the Chamber of Auditors;
- 2) the aims, functions and objectives of the activities;
- 3) the terms and conditions for withdrawal from membership and for expulsion of members from the Chamber of Auditors;
- 4) the rights and obligations of the members of the Chamber of Auditors;
- 5) the procedure for establishing and liquidating branches; their rights and relations with managing bodies of the Chamber of Auditors;
- 6) the procedure of formation of the managing bodies of the Chamber of Auditors, their competence, functions and obligations; the procedure for dismissing the elected managing bodies and their members;
- 7) the sources of assets and funds, as well as controls of financial activities;
- 8) the procedure for providing financial and other support;
- 9) the procedure for making amendments to the Statute.

2. The Statute may also provide for other regulations of activities of the Chamber of Auditors provided such regulations do not contradict this Law and other laws.

Article 37. Members of the Chamber of Auditors

1. The following persons may become members of the Chamber of Auditors:

- 1) persons who have passed qualification examinations for the title of the auditor and hold a certificate to confirm this, have been sworn in as auditors and have undersigned the oath they have taken;
- 2) persons who have auditor's qualification granted to them by the authorised bodies of foreign countries which are included in the list indicated in Paragraph 1 of Article 7 of this Law and approved by the Government or the body authorised by it, and have passed the knowledge test.

2. Members of the Chamber of Auditors shall have the right to:

- 1) take part in the activities of the Chamber of Auditors and nominate their representatives to the managing bodies of the Chamber;
- 2) make use of the services provided by the Chamber of Auditors;
- 3) make use of the information accumulated by the Chamber of Auditors;
- 4) obtain information about the activities of the Chamber of Auditors;
- 5) dispute the decisions of the Chamber of Auditors and the managing bodies in court.

Article 38. Rights of the Chamber of Auditors

1. The Chamber of Auditors shall have the right to:
 - 1) manage and use the assets and funds owned by it and dispose of the same;
 - 2) enter into contracts and assume obligations;
 - 3) establish branches;
 - 4) collect, store and summarise information about auditors and firms of auditors;
 - 5) provide services in accordance with the procedures prescribed by the Statute of the Chamber of Auditors;
 - 6) render support to its members in accordance with the procedure prescribed by the Statute of the Chamber of Auditors;
 - 7) establish means of mass media, engage in publishing activities;
 - 8) join international organisations.
2. The Chamber of Auditors shall manage financial accounting, provide information to public institutions and pay taxes in accordance with the procedure prescribed by law.

Article 39. Obligations of the Chamber of Auditors

1. The Chamber of Auditors shall have the following obligations:
 - 1) to prepare the National Auditing Standards;
 - 2) to prepare the methodology for carrying out audits;
 - 3) to prepare the Auditors' Code of Conduct;
 - 4) to prepare the Statute of the Chamber of Auditors;
 - 5) to prepare the Statute of the Auditors' Court of Honour;
 - 6) to organise and co-ordinate the programmes of internship, in-service

training for auditors;

7) to establish the obligatory number of hours of in-service training courses to be attended by auditors every year;

8) to address the issues of performance of audit and improvement of auditors' professional activities.

Article 40. Management of the Chamber of Auditors

The managing bodies of the Chamber of Auditors is the General Meeting of the members of the Chamber of Auditors, the Committee and the Administration.

Article 41. General Meeting of the Chamber of Auditors

1. Auditors shall attend the annual General Meeting of the members of the Chamber of Auditors to discuss and develop auditing activities and performance of auditors.

2. The General Meeting of the members of the Chamber of Auditors shall be convened and organised by the Committee of the Chamber of Auditors.

3. The General Meeting of the members of the Chamber of Auditors shall be the supreme managing body of the Chamber of Auditors.

4. The General Meeting of the members of the Chamber of Auditors shall be convened according to the procedure set out in the Statute of the Chamber of Auditors. An extraordinary meeting shall be convened if it is requested by no less than 1/5 of the members of the Chamber of Auditors or by the Committee on its resolution.

5. The General Meeting of the members of the Chamber of Auditors shall have the right to:

1) adopt, amend and supplement the Statute of the Chamber of Auditors;

2) establish the number of members in the Committee of the Chamber of Auditors.

The functions of the financial officer may also be performed by companies that provide accountancy services.

Article 43. Sources of Income of the Chamber of Auditors

Sources of income of the Chamber of Auditors shall consist of:

- 1) membership fees provided for in the Statute of the Chamber of Auditors and other special purpose contributions;
- 2) income from the services provided;
- 3) property and funds transferred by natural and legal persons without compensation;

2. Paragraph 7 of Article 47 of this Law shall come into force on 1 January 2000.

Article 47. Procedure for Implementing the Law

1. Authorisation to perform audits issued by the Institute of Auditing, Accounting and Property Appraisal before the effective date of this Law are deemed to have the same status as the auditor's qualification certificates issued according to the procedure prescribed by this Law.

2. After its expiry date the authorisation to perform audits will be exchanged for auditors' qualification certificates.

3. Persons who have passed at least one qualification examination at the Institute of Auditing, Accounting and Property Appraisal before the effective date of this Law shall be allowed to take the remaining qualification examinations at the body authorised by the Government (without applying the requirements set out in Subparagraph 2 of Paragraph 6 of Article 5 of this Law) within 1 year from the effective date of this Law. Persons, who do not pass the examinations during the specified period, will only be allowed to take these examinations after they fulfil the requirements set forth in Subparagraph 2 of Paragraph 6 of Article 5 of this Law.

4. The procedure for taking qualification examinations, as set out in this Law, shall be applied to persons who have already submitted applications to take qualification examinations to the Institute of Auditing, Accounting and Property Appraisal but have not taken them yet, as well as to persons who have not passed a single examination.

5. The auditors' requirements set out in Paragraph 1 of Article 31 of this Law shall be applied to auditors, who are appointed as members of the Auditors' Court of Honour, from the year 2001. Only those auditors who have served as auditors for no less than 2 years may be appointed as members to the first Auditors' Court of Honour following the effective date of this Law.

6. The firms of auditors which have a licence for audit activities shall be considered put on the list of the firms of auditors as of the effective date of this Law. The owners (shareholders, general members of TÛB or KÛB) of such firms of auditors must insure the firm's third party liability no later than within 6 months from the effective date of the Law on Audit and change within 1 year the impact of the

PRESIDENT OF THE REPUBLIC

VALDAS ADAMKUS