



SIGMA

Support for Improvement in Governance and Management

A joint initiative of the OECD and the European Union, principally financed by the EU

MONTENEGRO

EXTERNAL AUDIT

ASSESSMENT MAY 2008

1. Legal Framework

The State Auditors Institution (SAI) of Montenegro was established in April 2004 (Decree on Promulgation of the Law on the State Auditors Institution no. 01/625/2). The law was drafted with assistance from the German Agency for Technical Co-operation (GTZ).

The Constitution of Montenegro, adopted by parliament on 19 October 2007, includes provisions concerning the State Auditors Institution (SAI).

The SAI follows the collegial model and is composed of a senate and a president of the senate. The law requires parliament to appoint the SAI Senate. Parliament also selects the SAI President from among the members of the Senate. The President is appointed by parliament for a period of nine years and cannot be re-elected. At the end of this period the President takes office as one of the members of the Senate, whose positions are permanent.

The total number of SAI Senate members can be decided by a majority vote of the Senate, which subsequently is endorsed by parliament; it is currently composed of five members.

A member of the SAI Senate cannot be a member of parliament, hold any other office or be engaged in any other professional activity (article 35). A member of the Senate cannot be a member of "any body" of a political party (article 36). This provision is interpreted as meaning that the member of the Senate cannot be a member of a political party or hold a leadership position in a political party.

The audit remit of the SAI comprises the authorities and budget-users managing the budget and property of the state and local self-government units as well as the Central Bank of Montenegro and other legal entities in which the state holds a share.

The SAI reports to parliament, the audited entity and, if appropriate, other authorities whenever the SAI deems it necessary. The annual report on SAI activities is to be submitted to parliament and to the government by the end of October (article 19). This report should include an overview of the SAI's findings on the budget and state property, pointing out the causes and consequences of the major findings together with suggestions of remedies.

Parliament should consider the audit of the Financial Statement of the Republic's budget before accepting the following year's budget. A mechanism is in place for requesting parliament to consider the annual report of the SAI and to decide on proposed measures and on the time limits for their implementation (articles 26 and 27).

The annual SAI report is made public. However, the President of the Republic, the President of Parliament and the Prime Minister are to be informed of circumstances of a confidential nature.

The SAI should inform parliament and the government of particularly important issues through special reports.

On the basis of the above-mentioned Law on the State Auditors Institution, Rules of Procedure were established and approved on 10 January 2005. The Rules of Procedure were amended in January 2008 as new job posts had been created. These rules regulate the organisation, working methods and operations of the SAI. The Instruction on the methodology of work of the State Auditors Institution was passed on the same date.

In the Rules of Procedure it is stipulated that the budget of the SAI is to be submitted to parliament (article 29). The SAI budget is included in the state budget and hence channelled through the Ministry of Finance in the consolidated budget process prior to submission of the state budget to parliament. However, the SAI budget is treated separately by parliament in the event that negotiations are necessary.

2. Institutional Framework

The current President of the State Auditors Institution is the previous Minister of Finance. The vacant post in the SAI Senate has also been filled by a former member of the parliamentary Committee for Economy, Finance and Budget.

In October 2007 the President of the State Auditors Institution submitted the SAI's third annual report to parliament. During the period October 2006 – October 2007 the SAI audited the Republic's annual financial statement on 2005 as well as the Health Insurance Fund, two municipalities and the Ministry of Culture, Sports and Media. These audits were entirely in accordance with the annual audit plan for 2007. For 2008 a significant increase in the number of audits is foreseen due to an increase in the number of audit staff. The SAI's audit reports are used by parliament in its discussions on the adoption of the Annual Financial Statements. For example, parliament's conclusions regarding the Financial Statements of 2006 were issued in the *Official Gazette* no. 16 of 27 December 2007, Included in this decision are parliament's conclusions resulting from SAI findings and the corresponding measures that should be taken.

So far, only regularity audits have been performed although the law also provides for effectiveness and efficiency audits. Performance audits are included in the annual audit plan for 2008.

The Ministry of Finance is moving towards programme budgeting, and for this purpose the ministry has set up a working group, in which the SAI has a representative.

According to the new Rules of Procedure, the SAI is foreseen to have a total staff of 59, plus the five SAI Senate members. Approximately two-thirds of the SAI staff are auditors and one-third is comprised of support staff. Currently 16 auditors are employed and the plan is to employ eight new auditors in 2008 and another eight in 2009. The auditors have civil servant status. To become state auditors, the auditors must pass a general professional examination and a state auditor's examination. The SAI Senate has established a Commission for the State Auditors' Examination. The members of this commission are the members of the Senate. Professionals outside the SAI have drafted the training and examination curricula. In 2007 the current state auditors passed the state auditor's examination.

The SAI auditors have a relevant background for carrying out regularity audits, i.e. tax administration and economy, and a few are certified accountants from the commercial sector.

The SAI became a member of INTOSAI at its XIX Congress, held in Mexico in November 2007. The SAI has also been invited to become a member of EUROSAI (at its meeting in Cracow to be held in June 2008) and of the European Court of Audit's Network of Heads of Supreme Audit Institutions of EU Candidate and Potential Candidate Countries.

3. Reform Agenda and Capacities

The Government of the Republic of Montenegro has passed a significant number of laws designed to facilitate reforms required by the international community. The government adopted a Public Internal Financial Control (PIFC) Policy Paper (20 December 2007) for the enhancement of financial control and internal audit, together with an action plan for implementation, and a PIFC Law is currently in preparation. However, there is no strategy for the SAI's further institutional development to enable it to undertake an efficient external audit of the government.

4. Assessment

Accountability mechanisms have been considerably improved with the establishment of the State Auditors Institution in Montenegro. The independence of the SAI is also ensured by the fact that it primarily reports to parliament and that the members of the SAI Senate and the President of the Senate are appointed by parliament; its independence is also ensured by provisions in the Constitution. These improvements constitute a good step forward in strengthening its capacity to contribute to building a sound public finance base in Montenegro and to ensuring the validity and efficacy of accountability mechanisms. The SAI is making good progress in meeting INTOSAI and EU good practice auditing standards. The development of a supreme audit institution takes time, however, and it will be some years before the SAI will be in a position to undertake the full range of audits envisaged in the legislation and to take an even more active part in the discussion of the execution of the state budget.

It is positive that the SAI closely follows the development of the budget process. However, the SAI is still in its infancy and, as noted in the Public Expenditure Management assessment, the evolution of the audit process should be aligned with the institution's potential growth and capacity to assess the extent to which the government's performance goals have been achieved. Thus the development of performance budgeting will be important for the SAI's own development of performance audit.

5. Recommendations

Further assistance to the SAI needs to be ensured as from 2009 in view of the termination of the bilateral co-operation with the GTZ at the end of 2008. Experience recently acquired in the development of SAIs in EU acceding countries should be used as a basis for further enhancing the skills and professional capacities of the SAI in Montenegro. As the SAI is quite small, the support should be aligned with its absorption capacity. Performance audit should be one of the priorities for this assistance.

6. External Assistance

The German Ministry of Economic Co-operation and Development commissioned the German Agency for Technical Co-operation (GTZ) to provide technical assistance to the Parliament of Montenegro for the creation and establishment of a supreme audit institution. The project was launched in July 2002 and terminated at the end of 2007.

A multi-institutional working group was set up for the development of the project with the support of the German experts. The group comprised representatives of parliament, Prime Minister's Office, Ministry of Finance, Ministry of Justice, Secretariat of Legislation and Public Revenue Office. This working group drafted the legal basis for the State Auditors Institution. GTZ also provided assistance in drafting the internal regulations of the SAI. In 2004 a vocational training programme started for the first six employed state auditors. On-the-job training was provided by a private audit firm. The German Federal Court of Audit supported the project.

In 2006 the project especially provided support for the training of existing and new auditors and of other SAI employees. This project has been extended until the end of 2008.

A large USAID project covers, among other areas, Public Finance, Institutional Reform and Privatisation. There is a sub-project addressing local government. There is no overlap as such, but these activities address a number of issues of importance for external audit. In particular, USAID facilitated the development of the Budget Law (adopted in August 2001), which regulates the preparation and execution of the budget of the central government, the budgets of municipalities, internal control, budget accounting, establishment of a treasury and internal audit, as well as the planning of the budgets of extra-budgetary funds. Articles 51, 52 and 53 of the Budget Law require the preparation of final accounts by the Ministry of Finance and municipalities. Public enterprises are to submit their statutory accounts to the Ministry of Finance, including an "external audit report" (carried out by a private external auditor). The USAID project will end by June 2008.