EXCERPT

FROM THE AUDIT REPORT ON THE 2011 FINAL STATEMENT OF BUDGET ACCOUNTS OF THE MUNICIPALITY OF PLAV

Type of audit: Financial audit and regularity audit
Audited Entity: Municipality of Plav
Subject of audit: 2011 Final Statement of Budget Accounts of the Municipality of Plav
Audit duration: 60 auditing days
Collegium members: Mr Dragisa Pesic, member of the Senate – Head of the Collegium
Mr Branislav Radulovic, PhD, member of the Senate - member of the Collegium
I. GENERAL PART

1. Legal Basis

The legal basis for conducting the audit of the Final Statement of Budget Accounts of the Municipality of Plav for 2011 lies in:

- Law on State Audit Institution, Article 4 ("Official Gazette of Montenegro", № 28/04, 27/06, 78/06 and 17/07);
- Annual Audit Plan for the year 2012 adopted by the Senate of the State Audit Institution (hereinafter: SAI), № 4011-06-01/12 of 1st January 2012;
- Decision on Conducting the Audit of the Final Statement of Budget Accounts of the Municipality of Plav for 2011, adopted by the Collegium of the SAI, № 40113-05-647 of 13th June 2012.

The audit of the Final Statement of Budget Accounts of the Municipality of Plav for 2011 was conducted in accordance with:

- Rules of Procedure of SAI ("Official Gazette of Montenegro", № 50/07);
- Instruction on the Work Methodology of SAI ("Official Gazette of Montenegro", № 02/05);
- International Accounting Standards (IAS);
- International Auditing Standards for public sector (INTOSAI - ISSA).

2. Subject, Scope and Objective of Audit

The subject of the audit is the Final Statement of Budget Accounts of the Municipality of Plav for 2011.

As part of the audit of the Final Statement of Budget Accounts of the Municipality of Plav, the following has been analysed in detail:

- Receipts of the Municipality;
- Expenditure of the Municipality;
- Implementation of capital projects;
- Records of the state property in the Municipality;
- Indebtedness and
- Outstanding liabilities.

The subject to the audit was the normative arrangement and organizational structure of the Municipality and the public procurement system.

The objective of the audit is to give an opinion on the truthfulness and credibility of the Final Statement of Budget Accounts of the Municipality of Plav for 2011 and the regularity (legality) of its operations.

3. General Information on the Audited Entity

The Municipality of Plav functions in accordance with the Law on Local Self-Government ("Official Gazette of Montenegro", № 42/03, 28/04, 75/05, 13/06 and "Official Gazette of Montenegro", № 88/09 and 3/10). The Statute of the Municipality of Plav was adopted on the basis of the Law at the session of the Assembly of the Municipality of Plav held on 26th April 2007, and amendments to the Statute were made in 2009 and 2010 ("Official Gazette of Montenegro - Municipal regulations" № 17/07, 25 / 9:38 / 10).
Municipal bodies are:

- Assembly of the Municipality of Plav, the representative body of the municipality, consisted of 32 assembly members elected for the four-year term. The Constitutive session of the new Assembly of the Municipality of Plav was held on 15th June 2010. Ramo Kolasinac was elected the President of the Municipal Assembly.

- President of the Municipality is the executive authority of the Municipality. He/she is elected from among the Assembly members and his/her term of office lasts four years.

  The seat of the Municipality is in Plav.

  Skender Sarkinovic was the President of the Municipality during 2011. Skender Sarkinovic was discharged from the position of the President of the Municipality, at the session of the Municipal Assembly held on 19th July 2012. Orhan Sahmanovic was elected the new President of the Municipality at the same session.

  The person authorized to sign payment orders in 2011 was Skender Sarkinovic, the President of the Municipality of Plav.

  The Municipality has concluded Agreements on cooperation with:
  - Atlas banka, account number 505-3890-41;
  - Crnogorska komercijalna banka, account number 510-395-19.
II. OPINION, RECOMMENDATIONS AND MEASURES

The State Audit Institution, pursuant to Article 4 of the Law on State Audit Institution and the Decision of the Collegium responsible for the said audit, conducted an audit of the Final Statement of Budget Accounts of the Municipality of Plav for 2011. The audit was conducted in accordance with the Rules of Procedure of the State Audit Institution, Instruction on the Work Methodology of the State Audit Institution and the International Auditing Standards for public sector (INTOSAI-ISSAI/EUROSAI).


Based on the established factual state, and in accordance with Article 15 of the Law on State Audit Institution and in accordance with Article 50 of the Rules of Procedure of the State Audit Institution, the competent Collegium composed of Mr Dragisa Pesic (member of Senate and Head of Collegium) and Mr Branislav Radulovic, PhD (member of Senate and member of Collegium), determined that the Annual Audit Report covered all essential elements based on which the competent Collegium of the Institution, at its meeting held on 6th December 2012 adopted

ADVERSE OPINION
WITH THE PROPOSAL OF RECOMMENDATIONS AND MEASURES

The audit of financial statements has found that there are materially significant misstatements and discrepancies in the officially presented reports of the Municipality of Plav for 2011, as follows: in the execution of expenses without documentation or on the basis of incomplete documentation, in the total amount of at least EUR 109,394.00 and in the wrong posting of expenses in the amount of at least EUR 135,432.00.

The regularity audit has found that in some cases the resources have not been obtained and used in accordance with the law and by-laws and the Decision on the Budget of Municipality of Plav for 2011. The Municipality of Plav has not fully complied with the provisions of the Law on Public Procurement ("Official Gazette of Montenegro", 46/06) regarding the implementation of the public procurement procedure, during which the materialized violation of the Law on Public Procurement was established in the amount of at least EUR 24,177.00, because the higher price than the price announced by the tender was accepted. The Municipality of Plav has not complied with the provisions of Article 21 of the Law on Contributions for Compulsory Social Insurance ("Official Gazette of Montenegro", № 13/07, 79/08, 86/09, 78/10, 40/11, 14/12), which provides for the payment of social security contributions together with the net earnings, as well as Article 46 of the Law on Personal Income Tax ("Official Gazette of Montenegro", № 65/01, 12/02, 37/04, 29/05 and "Official Gazette of Montenegro", № 78/06, 04/07, 86/09, 40/11, 14/12) which provides for the payment of personal income tax along with the net earnings. The Municipality of Plav has not fully implemented the Rulebook on the Uniform Classification of Accounts for the Budget of the Republic, Budgets of Extra-Budgetary Funds and Budgets of Municipalities ("Official Gazette of Montenegro", № 35/05, 37/05, 81/05) in the posting of certain expenses. The Municipality of Plav has not fully implemented the Law on State Property ("Official Gazette of Montenegro", № 21/09, 40/11) and the Rulebook on the Method and Deadlines for Conducting the Inventory and Reconciling the Book Value with the Actual Balance, ("Official Gazette of Montenegro" № 34/09) when recording and making an evaluation of the state property in the Municipality. The Municipality of Plav has not fully implemented the Instruction on the Operations of the Local Self-Government Treasury, where the materialized violation of the Instruction was determined in the amount of EUR 87,086.
Due to the effects of the issues explained in the previous paragraphs, and based on fulfilment of the conditions for giving an adverse opinion, the competent Collegium decided on the above mentioned opinion.

**Recommendations and Measures**

1. The Decision on Organization and Operation of Local Self-Government has not provided for the Service for Assembly Affairs and it is planned as a separate spending unit in the Decision on the Budget of the Municipality of Plav for 2011. EUR 24,976.27 was spent to finance this service in 2011.

   - The Municipality of Plav is recommended to present the organizational budget classification, according to the Decision on Organization and Operation of Local Self-Government, pursuant to Article 26 of the Law on Budget.\(^{27}\)

2. The Municipality of Plav has not established a separate organizational unit for internal audit, in accordance with Art. 2 and 3 of the Law on the System of Internal Financial Control in the Public Sector\(^{28}\) and has not adopted the internal legislation governing the internal control.

   - The Municipality of Plav should establish a separate organizational unit for internal audit, in accordance with Art. 2 and 3 of the Law on the System of Internal Financial Control in the Public Sector and adopt internal legislation, which governs the internal control.

3. The audit has found that the payroll of the Municipality of Plav includes the civil servants and employees in the Tourist Organization of the Municipality of Plav and the Red Cross of the Municipality of Plav. The Tourist Organization of the Municipality of Plav and the Red Cross were not established as the local government bodies or public services, according to the Decision on Organization and Operation of Local Government.\(^{29}\)

   - The Municipality of Plav is recommended not to pay out any funds for the salaries of the employees of the Tourist Organization of the Municipality of Plav and the Red Cross of the Municipality from the item - Gross earnings in the forthcoming period, since these two organizations are not bodies of the local self-government service.

4. On the receipt 711-1-7 - Tax on capital gains, the receipt has not been planned, but the amount of EUR 1,810.50 was recorded.

   - The Municipality of Plav is recommended to record the revenues that are not planned in the Municipal Budget, but realized during the year on the item - Other revenues. Opening of the new account, which has not been planned by the Decision on the Municipal Budget, can only be done by the Decision on Amendments to the Decision on Budget, pursuant to Article 7, paragraph 3 of the Law on Budget.\(^{30}\)

\(^{27}\) Official Gazette of Montenegro, № 40/01, 44/01, 28/04, 71/05 and Official Gazette of Montenegro № 12/07, 73/08, 53/09, 46/10, 49/10, 53/11
\(^{28}\) Official Gazette of Montenegro, № 20/11.
\(^{29}\) Official Gazette of Montenegro – municipal regulations, № 48/06, 50/06 i 10/07 and Official Gazette of Montenegro – municipal regulations № 04/08 and 02/09
5. Personal income tax is paid through the state treasury to the Municipality of Plav so that the Municipality is not able to control the collection of these revenues.

- The Ministry of Finance of Montenegro, as the competent authority conducting the Treasury Consolidated Account, should provide full application of Article 26, paragraph 3 of the Law on Financing the Local Self-Government.31

6. In the course of 2011, the Municipality of Plav did not pay off the expenses for taxes and contributions on earnings while paying out the net earnings.

- The Municipality of Plav should consistently apply Article 21 of the Law on Contributions for Compulsory Social Insurance32, which provides for the payment of social security contributions together with the net earnings, as well as Article 46 of the Law on Personal Income Tax33, which provides for the payment of tax on personal income together with the net earnings.

7. The audit of the expenditure on salaries has found that:

- A number of employees do not meet the requirements prescribed by the Rulebook on Internal Organization and Job Classification;
- The coefficients determined by the Rulebook on Internal Organization and Job Classification and the decision on appointment do not coincide with the coefficients in the accounting lists for the employees with completed secondary education;
- In the course of 2011, the number of employees amounted to from 127 at the beginning of the year to 121 at the end of the year, although the submitted Rulebooks on Internal Organization and Job Classification provided for 118 employees.

- The Municipality of Plav is recommended to harmonize its operations with the adopted Rulebooks on Internal Organization and Job Classification in terms of required qualifications and the number of employees in the local government bodies.

8. The Board of the President of the Municipality of Plav, at its the session held on 16th March 2010, adopted the Decision on the increase of the coefficient for the employees of the Municipality of Plav from 3.77 to 4.29 due to the extremely severe economic and social situation. The said Decision does not contain a legal basis for the change of coefficients to the employees of the Municipality.

- The Municipality of Plav should apply Article 10 of the Law on the Earnings of Civil Servants and Employees34 and harmonize its legal acts and calculation of earnings with the aforementioned Law.

31 Official Gazette of Montenegro, № 42/03, 44/03, and Official Gazette of Montenegro № 05/08, 51/08 and 74/10
32 Official Gazette of Montenegro, № 13/07, 79/08, 86/09, 78/10, 40/11, 14/12
33 Official Gazette of Montenegro, № 65/01, 12/02, 37/04, 29/05 and Official Gazette of Montenegro, № 78/06, 04/07, 86/09, 40/11, 14/12
34 Official Gazette of Montenegro, № 14/12
9. Within the position - Other personal income, allowances to the assembly members, it has been determined that the Decision on the Amendment to the Decision on Allowances to Assembly Members of the Municipality of Plav\textsuperscript{35}, according to which the calculation of the allowance is based on the cost of labour is still applicable. Instead, the calculation should be based on the minimum wage, as provided for in the Instruction on the Calculation of Gross Earnings\textsuperscript{36}, adopted in 2011.

- The Municipality of Plav is recommended to harmonize the Decision on Allowances to the Assembly members of the Municipality of Plav with the Instruction on the Calculation of Gross Earnings, since the calculation of earnings and allowances based on the cost of labour has been abolished.

10. The audit of the calculation of travel orders has found that certain travel orders are incomplete in terms of: information about the time of departure and arrival from the business trip and the receipts which justify the business travel costs, and travel orders are not justified in due time.

- The Municipality of Plav should consistently apply Articles 1, 8 and 19 of the Decree on Allowances to Civil Servants and Employees\textsuperscript{37} in terms of completing the travel orders before going on a business trip, the time of calculation of travel orders and the use of funds for business trips, exclusively by local officials and/or persons who have the status of employees in the local government bodies.

11. The audit has found that certain payments have been made from the item - Representation expenses on the basis of the documents that do not contain the basic information stipulated by Article 32 of the Law on Value Added Tax\textsuperscript{38}.

- Municipality of Plav should apply Article 32 of the Law on Value Added Tax and payments should be made on the basis of the legally prescribed document - invoice.

12. The audit has found that cash payment from the treasury has been made in several occasions for the purposes that could be effectively carried out through the common system of payment.

- From the item - Other personal income, a payment in the amount of EUR 1,700.00 was made to the Assembly members of the Municipality of Plav and EUR 1,200.00 to the FC Jezero Plav;
- The amount of EUR 9,450.00 was paid to the Cultural Centre from the treasury;
- From the position - Participation in the community projects, payments were made in the amount of EUR 10,298.00 as follows: EUR 350.00 to a natural person, on the basis of the barge repair; EUR 1,000.00 to a natural person, according to the report of the contractor and a cash payment of EUR 8948.00 to an unknown person, on the bias of the advance - the land tax liability of the "Plavsko jezero" Hotel (there is only an order for the payment of cash, so it is not possible to determine who has taken out the money);
- The amount of EUR 49,208.15 was taken out from the treasury on the basis of: meal allowances, vacation allowance and fees to firemen, by the court decision of 26\textsuperscript{th} August 2010 (due to the wrong calculation of earnings);
- From the position - Repayment of liabilities from the previous period, the payment was made on the basis of reimbursement for transportation expenses, salaries for trainees and allowances for assembly members who attended the sessions in the amount of EUR 15,230.38.

\textsuperscript{35} Official Gazette of Montenegro – municipal regulations, № 32/08
\textsuperscript{36} Official Gazette of Montenegro, № 5/11
\textsuperscript{37} Official Gazette of Montenegro , № 57/11
\textsuperscript{38} Official Gazette of Montenegro, № 65/01, 12/02, 38/02,72/02, 21/03, 76/05, 04/06, Official Gazette of Montenegro, № 16/07, 73/10, 40/11
The Municipality of Plav should consistently apply Articles 151 and 157 of the Instruction on State Treasury Operations\textsuperscript{39} and Articles 156 and 157 of the Instruction on the Operations of Local Self-Government\textsuperscript{40} Treasury, pursuant to which an advance payment from the treasury should only be used in special occasions and to settle the ongoing needs that cannot be effectively carried out through the usual system of payment (e.g. travel orders), which was not the case with the mentioned payments.

13. The audit has found that certain payments, within the expenses, were not properly recorded:

- The amount of EUR 1,275.30, which was paid to the supplier for the purchase of the machinery for cleaning floor surfaces, which was recorded under item 41313 - hygiene means, should have been recorded under item 4415 - capital expenditure for equipment;
- The amount of EUR 525, which was paid to the supplier for wood for fuel, which was recorded under item 41319 - Other, should have been recorded under item 41343 - heating;
- The amount of EUR 5,000.00, which was paid to the supplier for geodetic survey, should have been recorded under item 463 - Repayment of liabilities from the previous period, since the liability is overdue for more than one year;
- Payments to a natural person for the services of development and maintenance of software - EUR 493.26, are accompanied by the invoices from 2009; these expenses had to be recorded under item 463 - Repayment of liabilities from previous years;
- The amount of EUR 526.50 should have been recorded under maintenance of equipment, because a contract has been signed with the supplier for the maintenance of computer equipment and it was recorded under the item - Contracted services;
- Under item 4142 - ongoing maintenance of buildings, the following payments were incorrectly recorded: the amount of EUR 300.00, relating to the purchase of two paintings as a present should have been recorded under item 4133 - Entertainment expenses and payment of the amount of EUR 300.00 to the supplier for the costs of maintenance of telephone equipment, had to be recorded under the item - Ongoing maintenance of equipment;
- Monthly instalments for the purchase of a car were recorded under item 4143 - Ongoing maintenance of equipment, rather than on the item - Capital expenditure - equipment;
- The Municipality of Plav made payments from the account 4174 - Subsidies in agriculture – damage compensation (there is no account in the Rulebook) for the fuel in the amount of EUR 1081.50 as well as payments for the pest control in the amount of EUR 400.00, and payment in the amount of EUR 300.00 related to the performed works on the dam.
- Participation in community projects cost EUR 35,790.72. This item does not exist in the Rulebook on Uniform Classification of Accounts for the Budget of the Republic, Budgets of Extra-Budgetary Funds and Budgets of Municipalities.
- The funds in the amount of EUR 89,440.00 were paid to the beneficiaries of the aid for the damage caused by floods, under item 463 - Repayment of liabilities from previous years. Since the submitted list was dated on 6\textsuperscript{th} June 2011, this amount should have been paid from the fixed budget reserves, in accordance with Article 54 of the Law on Financing Local Self-Government

The Municipality of Plav should consistently apply the Rulebook on Uniform Classification of Accounts for the Budget of the Republic, Budgets of Extra-Budgetary Funds and Budgets of Municipalities\textsuperscript{41}, and record the expenses in accordance with the chart of accounts defined by the Rulebook.

14. The audit has found that certain payments under the expenses were not made on the basis of valid documentation, which is contrary to Article 4 of the Law on Accounting and Auditing, Articles 29 and 43 of the Instruction on State Treasury Operations and Articles 19, 31 and 34 of the Instruction on the Operations of Local Self-Government Treasury of the Municipality of Plav:

- The amount of EUR 4,000.00 for payments to the supplier for the purchase of office supplies were not justified by invoices, since the payments were made without valid documentation;

\textsuperscript{39} Official Gazette of Montenegro, № 80/08, 02/09, 45/10 i 15/11
\textsuperscript{40} Official Gazette of Montenegro - municipal regulations, № 16/05
\textsuperscript{41} Official Gazette of Montenegro, № 35/05, 37/05, 81/05
o Two Assignment contracts were submitted for the payment to the supplier from Plav, concluded on 15th September and 24th November 2011 between that supplier, another supplier and the Municipality of Plav, in the amounts of EUR 2,000.00, a total of EUR 4,000.00. The assignments were not completed by the documentation, in terms of data, based on which an assignment contract was concluded;

o Payments to the supplier for fuel: the amount of EUR 220 was not justified by fiscal accounts, while the supporting documentation was not submitted for the amount of EUR 232. Payments to the supplier for fuel are generally not made on the basis of submitted invoices, but they are subsequently submitted, which is contrary to Article 47 of the Instruction on the Operations of Local Self-Government Treasury ("Official Gazette of Montenegro - municipal regulations", № 16/05);

o There is only an order to transfer funds in the amount of EUR 2,330.00 to a certain number of natural persons for the costs of consultancy services, so it was not possible to determine, based on which the payments were made and whether the expenditure was recorded in accordance with the Rulebook.

o Payments for the services of software development and maintenance made on the basis of two temporary service contracts, with no date of the completion of work, which were concluded with the natural persons by the Municipality of Plav for the maintenance of the previously developed application software. The temporary service contracts, as a special type of employment contract, are regulated by Articles 165 and 166 of the Labour Act, and must contain the information on the deadline for commencement and completion of the work (Articles 165 and 166)42.

o During 2011 The Municipality of Plav made payments from the position –Interest, related to a part of debt for the loans for the Public Utility and Housing Enterprise, in the total amount of EUR 1,402 and for the loans for the FC Jezero, in the total amount of EUR 2,345.00. The payments were made to Crnogorska komercijalna banka without complete supporting documentation - assignments, on the basis of which it would be possible to establish the legal basis for the payment.

o Payment to the supplier for fuel in the amount of EUR 2,000.00 refers to the invoice for the needs of the Public Utility and Housing Enterprise of the Municipality of Plav. Because of the blocked account of the Public Utility and Housing Enterprise, the Municipality made payment to this supplier. No assignment contract was signed on the basis of which the legal validity of this payment could be determined.

o By the Decision on allocation of funds to sports organizations, FC Jezero Plav was awarded EUR 33,000.00. The amount of EUR 24,384.00 covered by the test was paid fully in cash, but there was no written evidence about the basis and purpose of the cash payment.

o Under the transfer for the FC Jezero Plav, the amount of EUR 2,126.00 was paid to a supplier for the entertainment expenses, but the documents on the basis of which the payment had been made, were not submitted for inspection.

o The documents on the basis of which the payment was made regarding the expenses on the occasion of the Day of the Municipality of Plav in the amount of EUR 2,500.00 were not submitted for inspection;

o Emergency cash assistance - EUR 8385.00 refers to cash payments related to the assistance for IDPs (20 Euros per family member). There is no decision of the President of the Municipality, or the decision of the municipal committee, on the basis of which this assistance is paid, which is contrary to Article 66, paragraph 2 of the Law on Financing Local Self-Government. Only a list of beneficiaries was submitted for inspection to the auditor.

o Payment for capital expenditure in the amount of EUR 1,500.00 was made by an order for the transfer of funds. The invoice by which the payment was made, was not submitted for inspection;

o Payment in the amount of EUR 1,120.00 refers to the procurement of the fuel supplier. The documents which support these payments were not submitted for inspection.

o All invoices, which justify the amount of EUR 1,500.00, for the payments to a supplier for the purchase of plumbing material were not submitted.

o Payment in the amount of EUR 1,526.5 to a supplier for the purchase of plumbing material was made on the basis of the pro-forma invoice.

o From the position - Other - payment was made to a supplier from Gusinje in the amount of EUR 4,500.00 for development of the riverbed. An invoice was submitted in the amount of EUR 500, while the documents that justify the amount of EUR 4,000.00, were not submitted for inspection.

o The contracts or other valid documents with the suppliers were not made available for the construction of a protective fence around the House of Culture in Gusinje in the amount of EUR 5,000.00 and for the purchase of tiles for refugee settlement in the amount of EUR 2,610.00.

o Payment of EUR 800.00 to a natural person under the item - Participation in community projects was not supported by documentation.

o The amount paid to the supplier for fuel in the amount of EUR 1594.00 was not justified by any accompanying documentation.

o Payment of EUR 5,000.00 was made to a supplier from the item - Expenditure for local construction projects. There is only an order for the transfer of funds without supporting documents.

42 Article 165 which regulates the Temporary service agreement shall cease to be valid by entering into force of the new Labour Law (Official Gazette of Montenegro, № 59/11 of 14th December 2011).
Payment to the supplier for performed works, from the item - Repayment of liabilities from the previous period in the amount of EUR 2,500.00 was not accompanied by complete documentation; there is only an order for the transfer of funds.

Payment was made under the item - Compensation for damages from natural disasters, from the item - Repayment of liabilities from the previous period in the amount of EUR 27,320.00 through Crnogorska komercijalna banka. During the audit, the Decision or other legal act, based on which the payment was made was not submitted for inspection.

Payment to a natural person was made from the item - Repayment of liabilities from the previous period, in the amount of EUR 1,000.00, based on the contract with the supplier - legal entity in order to prepare the data for the detailed urban plan of the Municipality of Plav. The payment made to a natural person was not specified by the Contract;

- The Municipality of Plav should regulate its operations in accordance with the Law on Accounting and Auditing\textsuperscript{43}, Instruction on State Treasury Operations and Instruction on the Operations of Local Self-Government Treasury of the Municipality of Plav\textsuperscript{44}, and make payments from the consolidated account of the Treasury on the basis of complete and legally valid documentation.

15. The audit has found that the following articles of the Instruction on the Operations of Local Self-Government Treasury are not adhered to.\textsuperscript{45}

- Article 22b – Issuing of the form 7B - authority to redirect funds;
- Article 43 - Filling in the form: request for budgetary consumption and payment;
- Article 47 - Verification of the request for budgetary consumption and payment by the certifying officer.

- The Municipality of Plav should consistently apply Articles 22b, 43 and 47 of the Instruction on the Operations of Local Self-Government Treasury regarding the completion of the payment documentation, which is provided for under the Instruction.

16. During 2011 redirection by certain purposes between spending units was higher than 10%, which is contrary to Article 51 of the Law on Financing Local Self-Government\textsuperscript{46} and Article 7 of the Decision on the Budget of the Municipality of Plav for 2011.\textsuperscript{47} It stipulates that Budget users may divert the approved funds, by individual purposes, with the approval of the President of the Municipality, up to 10% of the funds provided for the purposes, whose amount varies. Moreover, auditors were not given the decisions for inspection, by which the President of the Municipality approves the above mentioned redirections. The President of the Municipality is the only person authorized to make Decisions on redirection, according to the Law on Financing Local Self-Government, Article 51

- The Municipality of Plav should provide for the full application of Article 51 of the Law on Financing Local Self-Government, which specifies that redirection between budget positions, cannot be greater than 10% annually and that these redirections are made based on the approval of the President of the Municipality.

17. The audit has found that there is a difference between the OUL forms (outstanding liabilities) submitted to the Ministry of Finance by two different persons from the Secretariat of Economy, Development and Finance, on the basis of the Rulebook on the method of submission and content of

\textsuperscript{43} Official Gazette of Montenegro, №32/11
\textsuperscript{44} Official Gazette of Montenegro – municipal regulations, № 16/05
\textsuperscript{45} Official Gazette of Montenegro – municipal regulations, № 16/05
\textsuperscript{46} Official Gazette of Montenegro, № 74/10
\textsuperscript{47} Official Gazette of Montenegro – municipal regulations, № 12/11
data on the revenues, expenditures and budgetary borrowing of local self-government units. The OUL form in the amount of EUR 2,021,590.80 was made on the basis of the submitted documentation, while it was not established which documentation the OUL form in the amount of EUR 1,917,776.96 was based on.

- The Municipality of Plav is recommended to provide an integrated system of financial reporting and to fully apply the Rulebook on the method of submission and content of data on the revenues, expenditures and budgetary borrowing of local self-government units.

18. The audit has identified the following irregularities in the management of state property in the Municipality of Plav, which is contrary to Article 48 of the Law on State Property:
   - Municipality of Plav failed to carry out the inventory for 2009 and 2010, while for 2011 there are only bookkeeping records of the inventory of the property in the separate programme for keeping the fixed assets;
   - Inventory lists are incomplete and unprocessed;
   - The Municipality of Plav has not made an appraisal of all buildings and property owned by the Municipality.

- The Municipality of Plav should provide for a consistent application of the Law on Local Self-Government, Law on State Property and the Rulebook on the method and deadlines for conducting the inventory and adjusting the book value with the actual balance, especially regarding the creation of the complete records of the state property on the territory of the Municipality of Plav.

As soon as possible, it should make the real estate appraisal, make a record of movable property by means of detailed inventory, according to the Law on State Property, Rulebook on the method and deadlines for conducting the inventory and adjusting the book value with the actual balance and the International Accounting Standards, Standard 16, Property, Plant and Equipment, items 31 and 32.

19. The President of the Municipality has not submitted a Report on the state of the property of the Municipality to the Municipal Assembly for 2011, or the previous years, for which the records of property were not kept, which is contrary to Article 57, item 8 of the Law on Local Self-Government.

- The Municipality of Plav should provide a consistent application of Article 57, item 8, of the Law on Local Self-Government, regarding the fulfilment of the responsibility of the President of the Municipality to submit a report on his work and the work of local government bodies and services to the Municipal Assembly at least once a year.

20. In the field of public procurement of the Municipality of Plav the following irregularities have been established:
   - For the purchase of office supplies in 2011, the procedure of public procurement was not carried out, in accordance with the Law, but the contract, which had been concluded on 12th April 2010 with the previous supplier, was extended.
   - For the asphalt-works - paving and patching of the streets, the procedure of public procurement was not carried out, but the contract was extended by concluding the Annex to the contract.

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48 Official Gazette of Montenegro, № 26/11
49 Official Gazette of Montenegro, № 21/09 and 40/11
50 Official Gazette of Montenegro, № 34/09
51 Official Gazette of Montenegro, № 42/03, 28/04, 75/05, 13/06 and Official Gazette of Montenegro, № 88/09, 03/10
On the basis of the Decision on procurement of small value, for the performance of construction and finishing works on the construction of the protective fence around the House of Culture in Gusinje of 20th July 2011, and in compliance with Article 36 of the Law on Public Procurement, the company from Berane was selected as the contractor with the offered price of EUR 16,721, but the contract with the said bidder was not submitted to the auditors for inspection.

An open public procurement procedure for asphalt-works was conducted - paving and patching of the streets, with the estimated value of procurement of EUR 59,000.00. A contractor for paving the streets was selected, with the lowest offered price of EUR 66,456.00, which is higher than the appraisal value.

There are no contracts with three suppliers, relating to the construction material composed of three parties of contracted values according to the Report on the assigned public procurement in 2010 submitted to the Public Procurement Directorate.

During 2011, the Municipality of Plav did not comply with the provisions of Articles 2, 27, 69 and 74 of the Law on Public Procurement. The Municipality of Plav should consistently implement the provisions of the Law on Public Procurement in its future operations, particularly regarding the implementation of public procurement, for the procurement of goods and services and the compliance with tender requirements when selecting the best bidder.

Given the level of determined irregularities, and the adverse opinion expressed, it is deemed necessary for the audited entity to inform the State Audit Institution within 6 months about the measures undertaken on the fulfilment of the recommendations from this Report.

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52 Official Gazette of Montenegro, № 46/06
53 Official Gazette of Montenegro, № 42/11