MONTENEGRO
STATE AUDIT INSTITUTION

SAI No.: 4011-06-1333/2

ANNUAL REPORT

on performed audits and activities of the

State Audit Institution of Montenegro

For period October 2008 – October 2009

Podgorica, October 2009
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The Senate of the State Audit Institution, pursuant to the Article 144 of the Constitution of Montenegro, article 38 in relation to the articles 18 and 19 of the Law on State Audit Institution ("Official Gazette of Montenegro", No. 28/04, 27/06, 78/06 and 17/07) at the session held on October 16th, 2009, has adopted the following:

**ANNUAL REPORT**

ON PERFORMED AUDITS AND ACTIVITIES OF THE
STATE AUDIT INSTITUTION
FOR PERIOD OCTOBER 2008 – OCTOBER 2009

1. GENERAL REMARKS

The Constitution of Montenegro defines the State Audit Institution (hereinafter: Institution) as an independent and supreme authority of the national audit, performing auditing of legality and efficiency of management over state assets and liabilities, budgets and all the financial affairs of the entities whose sources of finance are public or created through the use of state property.

The Senate of the State Audit Institution, at its session held on December 25th, 2008 has adopted Annual Audit Plan for 2009, stipulating not only the audit of the Budget Accounts of Montenegro, but also the following audits, per type:

**General audits**

<table>
<thead>
<tr>
<th>Name of the auditee</th>
<th>Auditing status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development Fund of Montenegro</td>
<td>Audit performed and made public</td>
</tr>
<tr>
<td>Ministry of Tourism and Environmental Protection</td>
<td>Audit performed and made public</td>
</tr>
<tr>
<td>Montenegrin Employment Agency</td>
<td>Audit performed and made public</td>
</tr>
<tr>
<td>Centers for Social Welfare</td>
<td>Audit performed and made public</td>
</tr>
<tr>
<td>Ombudsman</td>
<td>Audit performed and made public</td>
</tr>
<tr>
<td>Ministry of Interior Affairs and Public Administration</td>
<td>Audit performed and made public</td>
</tr>
<tr>
<td>State Prosecutor’s Office of Montenegro and high prosecutor’s offices in Bijelo Polje and Podgorica</td>
<td>Audit performed and made public</td>
</tr>
<tr>
<td>Public Enterprise for Coastal Area Management</td>
<td>Audit performed and made public</td>
</tr>
</tbody>
</table>
Cross-section audits

<table>
<thead>
<tr>
<th>Name of the auditee</th>
<th>Auditing status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lending to small and medium-sized entrepreneurs</td>
<td>Audit in preparation phase</td>
</tr>
<tr>
<td>Borrowing situation and capital investments in municipalities during 2008</td>
<td>Drafting of the Audit Report ongoing</td>
</tr>
<tr>
<td>Public procurements in IT sector</td>
<td>Audit ongoing</td>
</tr>
<tr>
<td>Payments and allocation of residence taxes</td>
<td>Drafting of the Audit Report ongoing</td>
</tr>
</tbody>
</table>

Regularity, efficiency and effectiveness audits – (Performance Audits)

<table>
<thead>
<tr>
<th>Name of the auditee</th>
<th>Auditing status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resources Management Authority</td>
<td>Audit performed and made public</td>
</tr>
<tr>
<td>Montenegrin Foreign Investment Promotion Agency</td>
<td>Field Audit ongoing</td>
</tr>
</tbody>
</table>

Control audits

<table>
<thead>
<tr>
<th>Name of the auditee</th>
<th>Auditing status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Veterinary Directorate</td>
<td>Audit performed and made public</td>
</tr>
<tr>
<td>Implementation of SIA recommendations for municipalities of Nikšić, Kolašin, Ulcinj, Danilovgrad and Rožaje</td>
<td>Audit performed and made public</td>
</tr>
</tbody>
</table>

As the reporting period October – October is not coinciding with the period determined by the Annual Audit Plan, in addition to the audits performed in III quarter 2009, audits of other subjects predicted by the plan for IV quarter are ongoing, meaning that the Annual Audit Plan will be fully implemented.

This report also includes audits performed and closed in fourth quarter 2008 (JSC “Railways” Montenegro), in addition to the audits determined by 2009 Plan.

Pursuant to article 19 of the Law on State Audit Institution, the Annual Report in reporting period October 2008 – October 2009, includes not only submission from the Audit Report on Budget Accounts of Montenegro for 2008, but also submissions from twelve individual audits.
The growth of performed audits has been registered in 2009 against 2008. Taking in consideration that the audits of Borrowing Situation and Capital Investments in Municipalities, Payments and Allocation of Residence Taxes, as well as audit of the Foreign Investment Promotion Agency will be completed in 4Q this year, the growth in the number of performed audits compared to year before totals 22.4%.

The Audit Report on the Budget Accounts of Montenegro contains 10 recommendations and measures, while auditees received 119 recommendations in total within the final reports for individual audits.

Control Audit of the implementation of SAI recommendations for municipalities of Nikšić, Kolašin, Ulcinj, Danilovgrad and Rožaje was performed on 62, and in Veterinary Directorate on 16 earlier provided recommendations. The objective of the control of the provided recommendations is to eliminate deficiencies determined in audited entities and to improve their performance.

Final reports have been distributed to audited entities and their supervising authorities for all performed audits. Reports are made public on website of the State Audit Institution [www.dri.co.me](http://www.dri.co.me).

Annual Report of the State Audit Institution for 2009 represents a synthesis of all performed audits as of October 10th, 2009. This document comprises of four parts and it represents an integral and comprehensive whole on all performed activities of the State Audit Institution in the reporting period.

The first part of the Annual Report titled “Audit Report on Budget Accounts of Montenegro for 2008”, provides statements from the final audit report of the Budget Accounts of Montenegro, since the Final Report has been submitted to the Parliament and the Government of Montenegro on September 30th 2008.

Simultaneously, the implementation of recommendations made by this Institution, which have been adopted by the Conclusion of the Parliament of Montenegro, enacted in the context of the adoption of the Proposal of the Law on Budget Accounts of the RMNE for 2008, is monitored.

The second part, titled “Submissions from individual audits in 2008”, provides submissions from 12 performed audits representing the most significant findings, notes and measures recommended to improve business practices within individually audited entities in period October 2008 – October 2009.

The third part of the Annual Report of SAI, titled “Findings and recommendations of the State Audit Institution”, pursuant to article 19 of the Law, provides appraisals regarding important cases where the rules and regulations on the budget and economic activities of the State are not complied with, important comments regarding shortcomings of the audited entity and recommended measures.

The fourth part of the report titled “Other activities of the State Audit Institution” represents cooperation with the Parliament and the Government of Montenegro, international cooperation, as well as implementation of the training plan for the State Audit Institution in period October 2008 – October 2009.

The State Audit Institution is a member of the International Organization of Supreme Audit Institution – INTOSAI, as its 187th full member and member of EUROSAI, an international organization gathering European supreme audit institutions, as its 49th full member.
International cooperation of the Institution during the reporting period intensified after the reception to INTOSAI and EUROSAl, through bilateral cooperation and regional initiatives. Exchange of knowledge and experiences, promotion and participation in regional initiatives and joint projects with INTOSAI and EUROSAl members shall contribute to strengthening of international cooperation as one of the long-term objectives of the Institution. Participation in international gatherings and workshops abroad, as well as planned trainings have been reduced as a consequence of the savings measures.

2. IMPLEMENTATION OF THE CONCLUSIONS ADOPTED BY THE PARLIAMENT OF MONTENEGRO ON THE AUDIT REPORT ON BUDGET ACCOUNTS OF MONTENEGRO FOR 2007

The Parliament of Montenegro, at its fifth meeting of the second ordinarily session in 2008, held on November 27th, 2007, has supported with its Conclusion the findings and recommendations of the State Audit Institution as presented within the Annual Report for 2008.

The conclusion states that the findings and recommendations of the State Audit Institution noted in the Annual Report, which point out to the deficiencies of the Budget Accounts of RoM for 2007, should be eliminated before Budget Accounts of Montenegro for 2008 are submitted. For that reason, the State Audit Institution required that the Ministry of Finance provides information on the activities undertaken to implement recommendations of the Audit Report on the Budget Accounts of RoM for 2007.

The Ministry of Finance at State Audit Institution’s request, in a letter No. 06-127/3, as of October 8th, 2009, has filed the following:

Report on the implementation of the conclusion of the Parliament of Montenegro pertaining to the adoption of the Proposal Law on Budget Accounts of Montenegro for 2007

The Parliament of Montenegro, pertaining to the adoption of the Law on Budget Accounts of Montenegro for 2007, has adopted the conclusion supporting findings, measures and recommendations noted in the Annual Report of the State Audit Institution, which points out the deficiencies in order to improve the public finances system, which need to be eliminated prior to the submission of Budget Accounts for 2008.

In that regard, the Ministry of Finance has delivered a note to all budget beneficiaries warning them on their obligation to take all necessary steps to implement the Conclusion made by the Parliament and adequately inform the Ministry about that.

Based on the delivered reports the following has been determined:

1. Revenue recording

Tax Administration has informed the Ministry of Finance that the tax accounting policies have been completely harmonized and maintained as stipulated by the principles and regulations defined by the primary and subordinate legislation, with a letter (document number 03/1-19779/1-08 as of November 27th, 2008)
Article 10 of the Rulebook on Tax accounting ("Official Gazette of RMNE", No. 81/06) stipulates that the opening balance entries are adjusted so that the amount of the tax debt is debited to the individual – analytical accounts of taxpayers (class 3), and credited to adequate public revenues accounts (class 7); for the amount of overpay adequate accounts of public revenues are debited (class 7) and individual-analytical accounts of taxpayers are credited (class 3).

Accounting records that are maintained in individual – analytical accounts of taxpayers are also maintained in synthetic accounts class 3.

In addition, provisions of the article 13 of the quoted Rulebook also stipulate that the entries for payment of public revenues are recorded so that the gross paid amount is debited to adequate accounts of funds class 1 with crediting of adequate synthetic account class 3. In case when accounts of funds also contain disputable (unidentified) payments, the same are entered into the adequate accounts of deposits class 3.

The amount of money totaling EUR12,961,306.54 which is recorded as the opening balance with the debit class 7 with crediting class 3 is made of disputable (unidentified) payments as of December 31st, 2006, while the amount of EUR423,986.51 are unidentified payments in period January 1- December 31st, 2007. What needs to be outlined here is that the said payments are identified according to the type of revenue and date of payment but not according to the taxpayer.

Two state funds in 2008 – Employment Agency and Compensation Fund are completely integrated into the State treasury system. In addition, revenues and expenditures of the state funds make an integral part of the Budget of Montenegro for 2008 and the Proposal of the Law on Budget Accounts of Montenegro for 2008.

2. Surplus/ deficit

The Parliament of Montenegro has adopted the Law on Changes and Amendments to the Budget Law, amending, amongst others, article 16 of the Law that now harmonizes the method of calculation of the surplus/deficit with the proposal made by the State Audit Institution.

3. Efficiency in expenditure of public funds and public procurements

The audit of the Budget Accounts of Montenegro for 2007 also included auditing of 23 budget beneficiaries, based on the reports submitted by the same. Mainly all budget users have respected the conclusions made by the Parliament of Montenegro and acted upon the findings and recommendations of the State Audit Institution and taken all necessary measures.

1) Reports delivered to the Ministry of Finance emphasize that the spending units have complied their annual Budget Plans with real needs and minimized discrepancies against the approved funds, while payments are conducted based on the valid, previously controlled documents, i.e. fiscal discipline has been established and the funds are used in accordance with the structure of expenditure approved by the annual State Budget Law.

After the Public Sector Internal Audit Act has been adopted, the spending units shall constitute separate organizational units in charge of internal audit, which will contribute to the quality and updated control of usage of the funds, as well as to the accuracy and comprehensiveness in accounting records and financial statements.
2) and
3) With due respect to the recommendations made by the State Audit Institution, as well as Parliamentary conclusions, spending units that have been determined to have inefficient expenditure of funds as far as payment of compensation to individual employees is concerned, with no legal basis for that, have taken all necessary steps to abolish the decision on payment of remunerations for over hours work. It has been decided instead to approve the employees free days. In addition, spending units that have been determined to have shortfalls in payroll lists which are not accordant to the adequate laws and subordinate legislation have terminated paying bonuses with no legal grounds in the law or subordinate legislation. Mainly all deficiencies noticed with several spending units have also been removed, being that they did not organized trade unions, or made special collective agreement or Rule Book on internal organization and systematization (which has been adopted in the meantime or its adoption is still ongoing). In this way, specific number of spending units have met adequate conditions to determine redundant number of employees and to adopt programs to solve these issues, as well as to terminate engagement of employees according to the service contract, and at the same time enable their appointment to adequate jobs.

4) Based upon the conclusions of the Parliament, the Government of Montenegro at its session held on July 23rd, 2009 has adopted the Decree on Organization and Functioning of Public Administration. Article 75 of the Decree stipulates that the Property Directorate, in accordance with its competences stipulated by this Decree, shall take over employees who have been conducting adequate jobs, as well as equipment and official documentation from the Directorate for General Affairs of State Authorities.

5) As stipulated by the conclusion of the Parliament related to the policy and criteria under which housing issues of employees in public administration shall be resolved, we outline that the Government of Montenegro at its session held on October 30th, 2008 has reached a Decision on addressing housing needs of civil servants and state employees ("Official Gazette of MNE", No. 69/08 and 23/09), stipulating the criteria for distribution of apartments, i.e. loans to state authorities, as well as the method, criteria and the procedure to address the housing needs of civil servants and state employees. The Government of Montenegro has also adopted the Decision on the method and criteria to address housing needs of state officials. The housing needs of civil servants and state employees, as well as state officials, are addressed based on the Housing Affairs Plan, adopted by the Commission for Housing Affairs of the Government of Montenegro, while records about apartments (housing fund of Montenegro) and funds for the housing needs of civil servants and state employees, as well as state officials, are maintained by the Directorate for General Affairs of State Authorities. The Government of Montenegro, at its session held on January 15th 2009 has deliberated on the Analysis of the Implementation of Housing Policy Action Plan in Montenegro, which was prepared by the Ministry for Economic Development, and brought a conclusion under which it has authorized this Ministry to draft several adequate legal documents and measures by the end of 2009, with the aim to implement this plan.

6) As far as conclusions made by the Parliament are concerned relating to the adoption of the subordinate legislation on the recording method for state property, non-financial assets and reporting system in this area, it should be born in mind that the Law on Property-Legal Relations has been discussed in the Government and the Parliament of Montenegro for longer period of time, and that the State Property Law has been enforced on March 28th, 2009. The general attitude about this was that the adoption of subordinate legislation on the recording method for state property and non-financial assets shall only be conducted after the enforcement of the new State Property Law. Provisions of the article 75 of the Law prescribe that the legal documents for its implementation will be enacted within 6 months, i.e. one year, from the day of adoption. The decree about the way tangible and intangible assets are
recorded and the assets of the State are inventoried has been set out in the group of the priority regulations for which a deadline of 6 months has been determined, while the Ministry of Finance has formed a commission with the task to prepare the Draft and deliver it to the Government for adoption in shortest possible time.

7) In accordance with the conclusions of the Parliament, as stipulated by the article 33 of the Budget Law, the Ministry of Finance has adopted a Book of Rules on Closer Criteria for Usage of Funds from Current and Permanent Budget Reserves, defining closer criteria for usage of reserves.

8) In accordance with the Conclusion on changes of the Law on Public Procurements, aiming at clearly defining the competences and roles of individual institutions, Directorate for Public Procurements has established a working group for preparation of expertise for elaboration of changes and amendments to the Law on Public Procurements, i.e. expertise for preparation of the new Law on Public Procurements.

9) As far as the conclusion of the Parliament that relates to the strengthening of resources and improvement of working conditions in organizational units of the Ministry of Finance is concerned: Budget Department and State Treasury Department, it is outlined within the Report of the Ministry of Finance that this Ministry is taking all necessary steps to improve conditions of work in all organizational units, as well as in the Budget Department and State Treasury Department, with the available funds, and that the strengthening of resources, which will be born in mind in future, will lead to the improvement of public expenditure system in Montenegro.
SUBMISSION
FROM THE AUDIT REPORT ON THE BUDGET ACCOUNTS OF MONTENEGRO
FOR THE YEAR 2008

Type of audit: General audit
Auditee: Ministry of Finance – the Government of Montenegro
Subject of audit: Budget Accounts of Montenegro for the year 2008
Audit duration: 120 working days
Auditing team: Miroslav Ivanišević and Milan Dabović, PhD
Pursuant to articles 9 and 12 of the Law on State Audit Institution, the State Audit Institution has performed the audit of Proposal of Budget Accounts for the year 2008. The audit in question has been performed in accordance with the Law on State Audit Institution, Rule Book on the Work Methodology for the State Audit Institution, Rules of Procedure of the State Audit Institution and the International Auditing Standards for the Public Sector (INTOSAI). Based on determined conditions and Opinion of the Ministry of Finance about the Audit Report of the State Audit Institution, and pursuant to article 50 of the Rules of Procedure of the State Audit Institution, the authorized Board comprising of Miroslav Ivanišević, Manager of the Board and Milan Dabović, PhD, member of the Board, at session held on September 25th, 2009, has adopted the Final report on the Montenegrin Proposal of Budget Accounts for the year 2008, with following final remarks, conclusions and recommendations, and has passed the following

OPINION

WITH RECOMMENDATIONS AND MEASURE PROPOSALS

Audit of the Proposed Budget Accounts of Montenegro for 2008 has been conducted in accordance with the international auditing standards for public sector and adequate Montenegrin regulations. The final report on Proposed Budget Accounts has been drafted in accordance with State Treasury General Ledger. Apart from the data presented in the General Ledger of the State Treasury, the audit discloses the data presented within the records of spending units, which has provided for an adequate volume and quality of information about all relevant and materially significant segments related to budgetary expenditures.

The audit also includes control of cash flows, legal basis for budgetary expenditures, accuracy of recognized data and the level of their disclosure, and it provides for a reasonable basis to express an opinion.

Regularity audit mainly confirms the amounts stated in the Proposed Budget Accounts, except for the part of information related to state deposits. The most part of these deposits were made as a consequence of violation of the defined obligations between contracting parties of the project “Job for You” within the Directorate for Small and Medium Sized Companies. The audit has shown that there are discrepancies in implementation of the primary and subordinate legislation that were disclosed in analysis and recommendations made by the State Audit Institution.

Apart from the presented opinion, we deem it necessary to emphasize those elements that may increase the efficiency and quality of reporting, as well as the activities of the Ministry of Finance and spending units, especially in the upcoming period.

In accordance with the suggestions given and reserves presented, we are hereby proposing the following measures and giving the following recommendations from which, we believe, the Government of Montenegro shall benefit in its efforts to improve public expenditure system in the following period.

- It has been determined through the audit that the data provided within the Cash Flow Statements – economic classification includes all transactions from which public expenditure has been financed. However, due to the fact that cash of individual budget beneficiaries has been kept at bank accounts with commercial banks, we express reserve for the amount of recognized deposit in the budget and we recommend to the Government to put in line usage of budget funds with the Budget Law and subordinate legislation enacted in accordance with the law.
We recommend to the Directorate for Development of Small and Medium-sized Enterprises that while implementing lending projects for entrepreneurs, transfers funds to the banks after the banks approve loans to beneficiaries and provide loans with which they participate in the project.

We recommend to the Government of Montenegro to reconsider legal status of the Directorate for Development of Small and Medium-sized Enterprises so as to arrange the organization and competences of the Directorate as a direct spending unit in the budget, or at the principle of development fund.

- We believe that the Ministry of Finance has not provided for comprehensive monitoring and updating of the outstanding debts. We recommend to the Ministry of Finance to update the outstanding debts records in the upcoming period, as stipulated by changed article 16 of the Budget Law.

- The Audit has shown that the Tax Administration is maintaining regular records on tax payments, as well as that it has conducted comprehensive implementation of the Book of Rules on Tax accounting, except for discrepancies within the opening balance. The audit has also proven that there are discrepancies in the financial amounts credited to income statements which are recorded in the General Ledger of the State Treasury, when the amount of EUR1,400,000 has been registered as the income of the Ministry of Finance instead as income of the Pension and Disability Insurance Fund.

The system of transferring of allocated financial funds has not been completely adjusted to the needs of overall integration of state funds into the State Treasury system. The audit has shows that Employment Agency and Compensation Fund are completely integrated into the State treasury system, while Pension and Disability Insurance Fund have not been fully integrated, and Health Insurance and Development Fund just need to be integrated. With this in mind, we propose that the Ministry of Finance accelerates the process of integration of un-integrated state funds into the State Treasury in accordance with legal obligations.

- It has been determined through the audit that the structure of expenditures recognized in some spending units is not correspondent to the earmarked budget expenditure, and for that reason it is necessary that spending units, which have been making expenditures not correspondent to budget purposes, increase fiscal discipline in the forthcoming period and purposefully spend the planned resources, with increase in the efficacy of the internal control system.

- The audit has proved that there are still no integrated data on the status, number and structure of civil servants or the adequate records about the changes in the state in this area, which makes it impossible to set a unique payroll system. Inconsistency of the payroll system due to the application of various legal solutions while determining salaries, lack of implementation of legal solutions, exceptions, or even breaches of regulations, as well as the existence of completely autonomous subsystems for determination of salaries are current characteristics. To solve this situation the Government would need to find a more comprehensive solution to manage the payroll system in general, enabling more complete access and updating of the records on salaries of civil servants and state employees.

- It is recommended that fees to employees for participation in commissions and working groups are paid on the account of other personal income in case the same is planned with the budget for the current year. It is recommended to budget beneficiaries to act upon the article 69 of the Book of Rules on Organization and Functioning of State Administration,
which determines the way project groups, teams and other form of works are established. The acts on establishment of project groups, teams or other forms of work need to stipulate the financial resources, tasks and deadlines to perform the task and present the Work Report. The amount of fee of project group, team or other forms of work needs to be determined based on salaries.

General audit performed in the Employment Agency also shows that the amount of fees for participation in working groups and committees needs to be questioned. It is also necessary to activate the work of the Management Board of the Agency and inform Board members about all relevant issues. President of the Management Board and Director of the Agency will be making decisions based on the work of the Management Board, which needs to be organized so that it undoubtedly confirms that the legitimacy of the decision-making process has not been put in question.

We believe that the minimum fee amount for the members of the management boards in public sector would need to be determined, which would be increasing by specific percentage based on the number of held sessions and presence of individual members of these boards at sessions.

- It is recommended that the Government adopts a document which would regulate legal rights and obligations of budget beneficiaries when using and procuring official cars, with the obligation to apply the same in all authorities of the state administration, with necessary transparency of usage procedures.

- It is recommended to the Government that the treasury should be harmonized with the Book of Rules on the Functioning of State Treasury and Bylaw on Fees and Other Remunerations to Civil Servants and State Employees and that the payment should be made from treasury only in cases when it is not possible to make non-cash transactions; all in order to decrease cash transactions.

- It is recommended to spending units that the request procedures for the usage of budget funds prescribed by articles 11 and 35 of the Budget Law and point 39 of the Book of Rules on Functioning of State Treasury should be consistently implemented.

- Our recommendation to the Government is to adopt an act which would provide timely delivery of court rulings to the State Treasury, with synchronized participation of the State Prosecutor’s Office and the sued spending units of the budget, in order to avoid unnecessary consumption of budget funds in court proceedings.
PURPOSE AND SUBJECT OF THE AUDIT OF THE MONTENEGRIN BUDGET ACCOUNTS FOR 2008

Audit reasons

The audit is performed in order to gather significant information on assessing the regularities in abiding by the rules and regulations when recording and allocating revenues, executing expenditure, bookkeeping and recording transactions performed, reporting and managing financial assets and non-financial property and liabilities.

Goal

The main goal of the audit is to gather reliable evidence in order to be able to report the significant facts relating to the legality of work of the authorized persons employed within the budget beneficiaries and relating to the objective presentation of public revenues and public expenditure in the Budget Accounts.

Subject

Subject of the audit are Budget Accounts made pursuant to the article 51 of the Budget Law and articles 1, 2, 3 and 4 of the Book of Rules on Consistent Accounts’ Classification for the State Budget, Extra-Budgetary Funds and Municipal Budgets ("Official Gazette of the RoM" No. 35/05, 37/05 and 81/05) and article 6 of the Rule Book on Drafting, Composing and Submitting Financial Reports on Budgets, Extra-Budgetary Funds and Local Governments ("Official Gazette of RoM", No. 03/06). In accordance with the above-mentioned the data and reports on the following issues were audited:

- Initial and final balance of the Consolidated Treasury Account,
- Ratio between the planned and implemented budget with the deviations stated,
- Loans taken,
- Outflows from the budgetary reserves,
- Guarantees given during the fiscal year,
- Implementation of the budget program
- State debts and issued guarantees,
- Written off tax and non-tax debts during the fiscal year.

Annual financial statements for 2009 are mainly drafted in a way prescribed by the Rule Book on Drafting, Composing and Submitting Financial Reports on Budgets, Extra-Budgetary Funds and Local Governments adopted on March 20, 2009, entered into force on March 30th, 2009, based on following forms:

- (1) Cash flow statements I – economic classification,
- (2) Cash flow statements II – functional classification,
- (3) Cash flow statements III
- (4) Report on outstanding debts, and
- (5) Report on consolidated public consumption.

The Rule Book prescribes that the spending units, which have excess resources at sub-accounts or transitory accounts recorded in State Treasury General Ledger as an expenditure, need to deliver along with annual financial statements, Statement about the way these resources have been used after the end of fiscal year at Form 6, which is an integral part of the Rule Book on Drafting, Composing and Submitting Financial Reports on Budgets, Extra-Budgetary Funds and Local Governments. The said Rule Book also stipulates that budget spending units need to submit their financial statements at forms 3 and 4 at latest by March 31st of the current year for prior fiscal year.
SCOPe OF THE AUDIT

Apart from the documents and reports controlled within the Ministry of Finance – the State Treasury, the audit of the Budget Accounts included individual Financial Statements, evidence and documents relating to the individual spending units, in order to assess whether or not the transactions performed were accompanied by the adequate documents.

Audit of the individual annual financial statements is based on controlling whether or not the regulations relating to the document issuing and recording procedures, bookkeeping and its harmonization with the State Treasury’s General Ledger, are followed. The audit was performed on the random sample taken from the following spending units:

7. Ministry of Finance
8. Ministry of Transport, Maritime Affairs and Telecommunications
9. Ministry of Human Rights Protection
10. Tax Administration
11. Directorate for General Affairs of State Authorities
12. Forest Directorate
13. Directorate of Civil Aviation
14. Directorate of Maritime Safety
15. Secretariat for European Integrations
16. Secretariat for Development
17. Statistical Office
18. Bureau for Education
19. Refugee Office
20. Directorate of Transport
21. Directorate of Public Procurements
22. Agency for Medicines and Medical Resources
23. Commission for Determination of Conflict of Interests
24. Parliament of Montenegro
25. Montenegrin Academy of Science and Art
26. University of Montenegro (transfers)
27. Pension and Insurance Disability Fund (Transfers)
28. Health Insurance Funds (transfers)

In addition to the named budget beneficiaries, the State Audit Institution has performed general audits in following entities:

3. Employment Agency
4. Development Fund
5. Ministry of Interior Affairs and Public Administration
6. Ministry of Tourism and Environmental Protection
7. State Prosecutor’s Office
8. Ombudsman
9. Center for Social Welfare and
10. Human Resources Management Authority

with which the scope of the auditing of budget beneficiaries has been significantly expanded, while findings, recommendations and measures to be taken are disclosed through individual reports.
RECORDING AND BUDGET IMPLEMENTATION SYSTEMS

Accounting system

The Accounting System of the Montenegrin Budget functions on cash basis pursuant to the provisions of the Articles 2 and 47 of the Budget Law and Article 1 of the Rule Book on Drafting, Composing and Submitting Financial Reports on Budgets, Extra-budgetary funds and Local Governments («Official Gazette of the RoM « No. 21/09) and Instructions on the State Treasury («Official Gazette of the RoM « No. 64/01). The accounting system is based on the records kept in the Treasury’s General Ledger, in the Ministry of Finance and the accounting departments of the spending units. Based on their payment and revenues’ records, spending units compose Financial Statements by the end of the year, which are then submitted to the Ministry of Finance – State Treasury Department no later than March 31 of the current year for the last year’s financial report. The State Treasury’s General Ledger and Financial Statements from the spending units represent document basis for drafting the Budget Accounts of Montenegro.

76 spending units were obliged to submit their annual Financial Statements to the Ministry of Finance. All spending units duly submitted their Financial Statements for the year 2008 to the Ministry of Finance – State Treasury.

Ministry of Finance in November 2008, pursuant to the Budget Law and Instruction on State Treasury («Official Gazette of RoM”, No 64/1), has elaborated expert guideline which imposes on budget beneficiaries to dully submit to State Treasury requests for payments and to close all accounts that have not been opened in accordance with the article 12 of the Law and to return unspent funds which have been paid in cash or paid at the accredited accounts and other forms of accounts (cards) and which have serviced for treasury purposes.

We draw the attention at the fact that the Ministry of Finance on December 26th 2008 has adopted a new Instruction on State Treasury ("Official Gazette", No. 80/08 and 02/09), which has been enforced on December 29th 2008, and it has conditioned changes in the way financial reports determined by the Rule Book on Drafting, Composing and Submitting Financial Reports on Budgets, Extra-Budgetary Funds and Local Governments ("Official Gazette", No. 21/09) are made. The Instruction on State Treasury proposes new solution relating to the closing of annual financial statements of the State Treasury General Ledger, points 120-123 specify that spending units that perform payments through sub-accounts or transitory accounts, and that for technical reasons or deadline for procedures, are not able to transfer the funds to end-users by December 31st of the current year, can transfer these funds at latest by the due date for submitting financial statements, i.e. by March 31 of the following year.

Spending units are obliged to inform Ministry of Finance about the unspent funds from point 120 of this Rule Book to make corrections in State Treasury General Ledger. The unspent funds are included into deposits and for the same amount the expenditures are restated, while contracted obligations for which the funds have been reserved will be paid at the account of the budget items for the upcoming year.

The spending unit, i.e. organization needs to deliver statement signed by the Chief Financial Officer (Form 6) about the expenditure of funds after the expiry of the fiscal year up to the moment when deadline for submitting of annual financial statements expires, that the funds have been used for intended purposes in accordance with recognized expenditures in State Treasury General Ledger. The statement is provided under the full material, moral and criminal liability.
Rule Book on Drafting, Composing and Submitting Financial Reports on Budgets, Extra-Budgetary Funds and Local Governments prescribes that spending units having unspent funds in transitory or sub-accounts which are recorded in State Treasury General Ledger as an expenditure, need to deliver Statement about the spending of these funds after the end of fiscal year on Form 6.

In financial statements for 2008, which have been submitted to the State Audit Institution by the Ministry of Finance, it has been determined that none of the Institutions has submitted Form 6. The state Audit Institution, through circular letter, has asked from budget beneficiaries to provide a Statement about spending of funds after the end of fiscal year, signed by the chief financial officer, that the funds have been used for indented purposes in accordance with the records kept in the State Treasury General Ledger. The forms have been delivered by the Ministry of Culture, Sport and Media, Ministry of Agriculture, Forestry and Water Management, Property Directorate and National Tourism Organization. However, the state shown in Form 6, delivered by the Ministry of Agriculture and Property Directorate is not consistent with the state delivered by banks’ confirmations. A number of budget users has delivered written statement (without a form) that the funds have been used as reported in the State Treasury General Ledger, while some budget beneficiaries have not delivered Form 6, which make us conclude that the Ministry’s order has not been obeyed. The table below shows budget users which have kept cash on their sub-accounts and transitory accounts even after December 31st, 2008, and they have not acted upon the Ministry of Finance’s order:

<table>
<thead>
<tr>
<th>Spending unit</th>
<th>Deposits on 31.12.2008 based on confirmations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CKB</td>
</tr>
<tr>
<td>State Prosecutor’s Office</td>
<td>1,045.49</td>
</tr>
<tr>
<td>Ministry of Justice</td>
<td>13,927.67</td>
</tr>
<tr>
<td>Ministry of Education and Science</td>
<td>1,274.34</td>
</tr>
<tr>
<td>Ministry of Maritime Affairs and Transport</td>
<td>10,338.25</td>
</tr>
<tr>
<td>Ministry of Foreign Affairs</td>
<td>5,800.03</td>
</tr>
<tr>
<td>Anti-corruption Initiative Directorate</td>
<td>4,325.43</td>
</tr>
<tr>
<td>Property Directorate</td>
<td>1,872.76</td>
</tr>
<tr>
<td>Forest Directorate of Pijevica</td>
<td>107,553.50</td>
</tr>
<tr>
<td>Hydro-meteorological Directorate of Montenegro</td>
<td>6,817.94</td>
</tr>
<tr>
<td>Directorate for development of small and medium-sized enterprises</td>
<td>2,171,531.64</td>
</tr>
<tr>
<td>Directorate of Transport</td>
<td>43,862.53</td>
</tr>
<tr>
<td>Total</td>
<td>2,325,853.63</td>
</tr>
</tbody>
</table>

The audit has shown that a number of spending units are still keeping cash at bank accounts after the end of fiscal year. This cash has passed through the State treasury system but it has not been justified in accordance with article 123 of the Instruction on State Treasury and article 2 of the Rule Book on Drafting, Composing and Submitting Financial Reports on Budgets, Extra-Budgetary Funds and Local Governments. Spending units were obliged to recognize the structure of these funds at the legally prescribed Form O.6. and to deliver it along with other financial statements to the Ministry of Finance by March 31st, 2009.

The biggest amount of EUR6,063,324.91 is spent by the Directorate for Development of Small and Medium-sized Enterprises, which has been transferring to the commercial bank accounts funds
predicted for implementation of the project “Job for You”. 50% of loans should be approved by the bank and 50% is funded by the Directorate (for starters in business 70% funds is approved by the Directorate, and 30% by Banks). Banks that reach the final decision about the allocation of loans have either been late with the decision process or due of their liquidity they were not able to provide loans.

According to international accounting standards loans are recognized only when the resources are transferred to loan users and this is why the State Audit Institution considers them deposits. It has also been determined that the cash balance has increased with the amounts from returned loan installments approved in earlier years, and decreased with the approved loans from previous years.

Based on the above-said we recommend to the Directorate for Development of Small and Medium-sized Enterprises that while implementing lending projects for entrepreneurs, transfers funds to the banks after the banks approve loans to beneficiaries and provide loans with which they participate in the project.

We recommend to the Government of Montenegro to reconsider legal status of the Directorate for Development of Small and Medium-sized Enterprises so that it will arrange the organization and competences of the Directorate as a direct spending unit in the budget, or at the principle of development fund.

We also believe that users of transferred funds should recognize the amount of unspent funds as well as other spending units in the budget.

Budget beneficiaries should strictly abide by the provisions of the Budget Law and subordinate legislation implemented in accordance with the said law. For this reason we believe that implementation of legal regulations that provide for more transparent expenditure of public funds should be made, strengthening of fiscal discipline and prevention of non-earmarked expenditures, with discretionary decision of budget users that are not accompanied with the payment request as the basic document through which regularity of budgetary expenditures is tested.

The control has determined that the structure of expenditures stated by the Ministry of Transport, Maritime Affairs and Telecommunications, Secretariat for Development, Secretariat for European Integrations, Directorate for General Affair of State Authorities, Forest Directorate, Directorate of Public Procurements, Statistical Office, Montenegrin Academy for Science and Art, Agency for Medicines and Medical Resources, Commission for Determination of the Conflict of Interest and Parliament of Montenegro, are not correspondent to the real budget expenditure, in a way and volume showed in point 3.6 of the Report.

Parliament of Montenegro, Ministry for Economic Development, Ministry of Education and Science, Ministry of Health, Labor and Social Welfare, Property Directorate, Bureau for Education, Seismological Bureau, Refugee Office, ZAMTES and Montenegrin Academy for Science and Art have not delivered to the Ministry of Finance report about donations in 2008. Spending units have been making payments that do not correspond to the budget program, so in the forthcoming period it is necessary to maintain and increase fiscal discipline and demand from spending units to use appropriately their planned funds.
Montenegrin Budget Implementation for 2008

The current balance, as presented in the article 1 of the Financial Statements, is as follows:

<table>
<thead>
<tr>
<th>Ordinal No.</th>
<th>DESCRIPTION</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Funds transferred from 2007.</td>
<td>166,682,547.34</td>
</tr>
<tr>
<td>II</td>
<td>Incomings</td>
<td>1,353,836,659.76</td>
</tr>
<tr>
<td></td>
<td>Current revenues</td>
<td>1,307,145,506.91</td>
</tr>
<tr>
<td></td>
<td>Revenues from the property selling</td>
<td>24,817,482.77</td>
</tr>
<tr>
<td></td>
<td>Revenues from settling the loans</td>
<td>8,998,827.78</td>
</tr>
<tr>
<td></td>
<td>Donations and transfers</td>
<td>2,235,692.06</td>
</tr>
<tr>
<td></td>
<td>Loans taken (money loans and credits)</td>
<td>10,639,150.24</td>
</tr>
<tr>
<td>III</td>
<td>Outflows</td>
<td>1,423,937,917.20</td>
</tr>
<tr>
<td></td>
<td>a) current budget</td>
<td>828,416,564.51</td>
</tr>
<tr>
<td></td>
<td>Expenses</td>
<td>656,941,271.22</td>
</tr>
<tr>
<td></td>
<td>Loans given (money loans and credits)</td>
<td>47,955,930.35</td>
</tr>
<tr>
<td></td>
<td>Settling loans</td>
<td>60,602,428.44</td>
</tr>
<tr>
<td></td>
<td>Outstanding payments' settling</td>
<td>50,479,372.39</td>
</tr>
<tr>
<td></td>
<td>Reserves (current and permanent)</td>
<td>12,437,562.11</td>
</tr>
<tr>
<td></td>
<td>b) capital budget</td>
<td>73,370,859.46</td>
</tr>
<tr>
<td></td>
<td>c) budget of state funds</td>
<td>522,150,493.03</td>
</tr>
<tr>
<td></td>
<td>Expenditures</td>
<td>495,732,392.46</td>
</tr>
<tr>
<td></td>
<td>Loans given (borrowings and credits)</td>
<td>14,586,607.54</td>
</tr>
<tr>
<td></td>
<td>Settling of loans</td>
<td>4,534,927.01</td>
</tr>
<tr>
<td></td>
<td>Outstanding payments' settling</td>
<td>7,296,566.02</td>
</tr>
<tr>
<td>IV</td>
<td>Deposits</td>
<td>96,581,290.10</td>
</tr>
</tbody>
</table>

Cash flow statement in article 1 of the Budget Accounts has been compared to the cash flow movements in 2008, with the aim to analytically interpret the recognized cash, as well as to verify the accuracy of the stated cash transactions. Since the article 123 of the Instructions on State Treasury has not been abided by, or article 2 of Rule Book on Drafting, Composing and Submitting Financial Reports on Budgets, Extra-Budgetary Funds and Local Governments showed at page 11 of the Report, we express reserve for the recognized amount of deposits in the part related to the budget deposits. Deposits of the Employment Agency and Development Fund have been explained in the Audit Report conducted by the State Audit Institution in these entities, which will be publicized in its Annual Report.

Surplus/Deficit

The report on the consolidated public expenditures presents either deficit or surplus achieved. The Ministry of Finance, within its report on the Budget Accounts, i.e. in the Report on Consolidated Public Expenditure, presented the surplus of 15,119,711€ for 2008. Pursuant to the Article 16 of the Budget Law, cash surplus or deficit respectively represents difference between revenues and expenditure, where loans, received transfers, donations and incomings from property selling become subtracted from revenues while expenditure for repaying the principal in the country or abroad on the basis of the credit loans or issuing bonds and for settling the liabilities from the previous period become subtracted from the expenditure.

We believe that the methodology of stating the surplus with the said article of the Law provides for the increased results based on the payments of liabilities from previous period.
The State Audit Institution in the Report on the Budget Accounts for 2007 has expressed reserve for the methodology used to calculate surplus/deficit and it reiterates that the Parliament has adopted the recommendation made by the Institution to change article 16 of the Budget law. The Parliament in 2009 has fully adopted the proposed changes, so that the changed article 16 reads as follows:

“Cash surplus or deficit respectively represent difference between incomings and outflows, where loans, received transfers, donations and revenues from property selling become subtracted from incomings, while outflows for repaying principal in the country or abroad, on the basis of debts incurred by taking credit loans or issuing bonds and for settling liabilities from the previous period, become subtracted from the outflows.

Change of the net liabilities from the previous years represents the difference between the liabilities’ balance in the beginning and in the end of a fiscal period.”

We believe that the said changes to the Budget Law, after the previous record of outstanding debts by the Ministry of Finance will enable more efficient recognition of liabilities in the forthcoming period.

**Tax revenues collection**

Tax Administration, Customs Directorate and Ministry of Interior Affairs and Public Administration and other ministries are responsible for collection of public revenues (taxes, fees and compensations), as well as other administration authorities and courts.

The Tax Administration, Customs Directorate and Ministry of Interior Affairs and Public Administration after the identification of the type of income are transferring funds from their accounts to the Central Account of the State Treasury, with the simultaneous submitting of the “the Recipients’ Statement” about the structure of the public income according to eco-codes and municipalities.

Central Bank delivered statements on the daily changes in the accounts per payers: Tax Administration from group 820, Customs Directorate from account 805, Ministry of the Interiors and Public Administration from account 825, State Treasury from the account 832.

The audit of the budget revenue included comparison of data on realized revenue recorded in State Treasury with data from the donor of the “Recipient’s Statement”, i.e. Tax Administration, Customs Directorate and Ministry of Interior Affairs and Public Administration. All recipients of income receive funds on daily basis, electronically, except in case the income cannot be identified. The Tax Administration has complied its Tax Final Account in accordance with article 6 item 1 point 13 of the Law on Tax Administration (“Official Gazette of the RoM”, No. 65/01, 80/04 and 29/05).

With comparison of data on collected revenues, as recorded in the State treasury, with those recorded in the “Recipients’ Statement”, i.e. Tax Administration, it has been determined that there are irregularities on December 31st, 2008 in allocation of funds per users.

In accordance with the records of the State Treasury General Ledger, out of the total income of funds per Income Statement of Tax Administration: 443,824,799.40€ represent income in the Montenegrin budget, and 370,029,144.18€ are incomes from municipalities, funds, communities and PE “Coastal Area”.
With the control of the Income Statements it has been determined that there is 442,424,799.40€ budget income or 1,400,000.00€ less, while income from other users is 371,429,144.18€.

The errors in allocation of funds to users by the Ministry of Finance compared to the Income Statement of the Tax Administration is related to the Pension and Disability Insurance Fund, and the error has been restated at the beginning of January 2009.

Gross revenue of Pension and Disability Insurance Fund per Income Statement of the Tax Administration amounts 200,563,606.03, while according to the Report of the Ministry of Finance 199,163,617.71 has been allocated to the Pension Fund, or 1,399,988.32€ less. The said amount is allocated at eco-code 71554 – Other incomes and it has not been provided with Income Statement of the Tax Administration.

**Budget without State Funds**


**Income in the budget**

Pursuant to the Article 9 of the Budget Law, Montenegrin budgetary incomings include the following:

- Current revenues (taxes, contributions, fees, levies and other revenues); 800,600,805.35€
- Revenues from selling property; 17,899,276.54€
- Incomings from credit loans repayment; 2,412,209.76€
- Donations and transfers; 2,235,692.06€
- Lending and credit loans (domestic and foreign); 8,510,228.98€
- Other revenues, pursuant to the Law. 0.00€

Total incomings into the State Budget in 2007 were 831,658,212,69€ and hence were 4.14% lower than planned, i.e. 2.80% higher than in 2007.

Within the income’ structure in 2008, the highest amount goes to taxes, making thus 84.63%, while the same income’ percentage in 2007 was 87.51%. The tax structure is mainly made of value added taxes totaling 440,064,484.29€. Out of the gross amount of value added tax, the budget was allocated 315,936,465.02€, while for financing of state funds the following has been allocated:

<table>
<thead>
<tr>
<th>Fund</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension and Disability Insurance</td>
<td>68,391,453.52€</td>
</tr>
<tr>
<td>Health Insurance Fund</td>
<td>37,086,111.00€</td>
</tr>
<tr>
<td>Employment Agency</td>
<td>11,773,893.13€</td>
</tr>
<tr>
<td>Compensation Fund</td>
<td>6,876,561.62€</td>
</tr>
</tbody>
</table>

Out of the total amount of value added tax income the budget received 71.79%, i.e. 315,936,465.02, which is 9.14% less compared to the plan. For financing of state funds 28.21% has been allocated, i.e. 124,128,019.27€, i.e. 1.43% more than planned.

Budget income was mainly formed from basic sources of financing, which shows that there is stability in financing of public consumption in 2008 and relatively decreased public debt. The structure of income is still showing significant importing activity, taking in considering the height of VAT charged while
importing.
Budgetary Expenditures

Pursuant to the article 10 of the Budget law, expenses include the following:

4. Current expenditure,
5. Social protection transfers,
6. Transfers to individuals, to the NGO and public sector,
7. Capital expenditure for procurements and investment maintenance of the financial assets and non-financial assets,
8. Lending and credit loans given,
9. Repayment of debts, guarantees and previous years’ liabilities.
10. Other payments in accordance with the law.

Audit findings of the recorded expenditure from the State Budget showed that the expenditure in 2008 amounted to 901,787,423.80€. That means that the implemented expenditure was 7.58% higher than the planned one i.e. that it was 13.93% higher than the expenditure implemented in 2007.

Plan of the budgetary expenditure is provisioned by the Montenegrin Budget Law for the year 2008 (»Official Gazette of RoM« No. 17/07). In August 2008, Montenegrin Parliament adopted the Law on Changes and Amendments to the Law on Montenegrin Budget for the year 2008 (»Official Gazette of RoM« No. 46/08), pursuant to which budgetary expenditure was increased for 107,842,468.20€ i.e. by 14.76%.

Gross earnings of employees

Outflows on gross salaries were 265,504,324.89€ or 96.96% of the planned ones. Net salaries, taxes and social insurance contributions made 24.86% out of the total outflows in 2008 and, individually, made the highest spending from the budget.

Level and amount of taxes paid are established pursuant to the Law on Taxation applied to the Physical Persons’ Income (»Official Gazette of RoM« Nos. 65/01 and 12/02) and Decree on Establishing the Non-taxable Amount of the Physical Persons’ Income (»Official Gazette of RoM« Nos. 63/02, 69/02, 04/04) depending on the amount of the gross salary and taxation scale stated, to which the tax rate of 15% is applied.

Contributions are established pursuant to the Law on Social Insurance Contributions (»Official Gazette of RoM« Nos. 32/93, 03/94, 17/94, 42/94, 01/95,13/96, 45/98, 65/01, 54/03, 39/04 and 29/05) in accordance with the following rates: contributions for pension and disability insurance payable by the employee in the percentage of 12% and those payable by the employer in the percentage of 9.00%; contributions for health insurance payable by the employee in the percentage of 5.50% and those payable by the employer in the percentage of 6.50%, as well as contributions for unemployment insurance payable by the employee in the percentage of 0.5% and those payable by the employer in the percentage of 0.5%.

The audit of this budget item determined deficiencies in application of legal provisions stipulating the matters of salaries, contributions and other fees, over hours work as well as appointment of civil servants and state employees to working posts.

The audit has shown that the Ministry of Finance is calculating and performing payment to the state authorities and court institutions (6,175 employees), except for: Bureau for Execution of Criminal
Sanctions, Ministry of Interior Affairs and Public Administrations, Police Directorate, Forest Directorate, Agency for National Safety, Ministry of Defense, Directorate of Protection of Confidential Information, social and child welfare institutions, special institutions, high schools, elementary schools and pre-school institutions, with total number of 22,339 employees for which the accounting is performed in the said institutions and authorities, while the payment is conducted through State Treasury.

It has been determined through the audit that there are no integrated information about the status, number and structure of civil servants or adequate records about the changes in the state in this area, which makes it impossible to set a unique payroll system. Inconsistency of the payroll system due to the application of various legal solutions while determining salaries, lack of implementation of legal solutions, exceptions, or even breaches of regulations, as well as the existence of completely autonomous subsystems for determination of salaries are current characteristics. To solve this situation the Government would need to find a more comprehensive solution to manage the payroll system in general, enabling more complete access and updating of the records on salaries of civil servants and state employees.

The determination of the salary of the President of the Commission for Determination of Conflict of Interests for 2008 was conducted based on the Salary Solution No. 81/8 as of June 27th, 2008, which was made by the Commission, with the height of the coefficient specified for the President of the Constitutional Court. The determination of salary based on this Decision was made until January 1st, 2008, retroactively. The Constitution of Montenegro prohibits retroactive enforcement of laws and other regulations. Exceptionally, some provisions of the law, if this is demanded by the public interest determined during the adoption procedure, can have retroactive force. Decisions and other subordinate legislation, exceptionally, when there are reasons determined in the adoption procedure of the law, can be enforced earliest on the day when they are publicized.

Article 18 of the Law on Conflict of Interests ("Official Gazette of the RoM", No. 42/04) specifies that the President and members of the Commission can receive a fee, determined by the working group of the Parliament. According to the said article, the Parliament of Montenegro at the session held on October 20, 2004 has made a decision to determine the fee for the president and members of the Commission, amounting five, i.e. four lowest prices of work.

Article 19, item 2 of the Law on Conflict of Interest ("Official Gazette of RoM", No. 42/04 as of June 22nd, 2004) prescribes that the Rule Book on the Commission closely stipulates the way of work and other issues of relevance for the work of the Commission. Article 8 of the Rule Book on the Commission for the Determination of the Conflict of Interests ("Official Gazette of RoM", No. 72/04 as of November 26th, 2007) specifies that the President of the Commission is obliged to perform his/her duties professionally, by signing employment contract in the Commission, in accordance with the regulations related to the state officials.

Article 42 of the Law on prevention of the conflict of interests ("Official Gazette of MNE", No.1/09 as of January 9th, 2009) determines that the President of the Commission shall perform his/her duties professionally and has the right to the amount of income determined for Ombudsman also, i.e. the same coefficient as for the salary of the President of the Constitutional Court.

Based on the above said, as well as the fact that the documents of the Commission have been publicized, we believe it would be necessary to solve the issues of professional performance of duties of the President of the Commission for Determination of the Conflict of Interests with timely changes of the Law on Conflict of Interest and to specify his/her salary within this law.

The audit has shown that the Secretariat for European Integrations, Secretariat for Development and Commission for Determination of the Conflict of Interests, have recorded expenditure at item 4111 – net income, which does not belong to the net income, for the one-off payments of awards to employees.
Payment of the awards based on the Rule Book on Unique Classification of accounts for the Budget of the republic, extra-budgetary funds and municipalities (‘Official Gazette of RoM, No. 35/05, 37/05, 81/05) should be planned and performed in item 412 – Other personal income.

**Variable part of income**

The Constitutional Court of Montenegro with its decision No. 11/08 (‘Official Gazette of MNE’, No.27/08) has determined that the provisions of article 1 item 3 and article 3 items 1 and 2 of the Law on Changes and Amendments to the Law on Civil Servants and State Employees’ Salaries(‘Official Gazette of MNE’ No. 17/07) are not accordant with the Constitution of Montenegro and they cease to be valid with the day the decision has been made public. The Decision has been publicized in the said Official Gazette of Montenegro on April 24th, 2008. The disputable provisions of the Law based on special working conditions, and the decision by the manager of the authority, provided for the bonus on salary amounting 30% for the specific number of employees without determined criteria, which has been violating the constitutional principle of equality and conditions stipulated by the law on determination of salaries.

The government has made a Conclusion No.06-396 as of May 8th, 2008, “to supersede the arisen problems”, since the provisions of the Law have been announced unconstitutional, and it has determined that until Changes and Amendments to the Law on Civil Servants and State Employees’ Salaries are made, provisions of article 13 and 14 of the same law are applied, that determine the payment of variable part of salaries. The article 13 of the Law pertains to the Rule Book on Closer Criteria and the Way to Determine the Variable part of the Salaries of Civil Servants and State Employees (“Official Gazette of MNE”, No.23/08 as of April 4th, 2008) stipulating that the variable part of the salary is determined based on the special expert references and exceptional results and quality of work of civil servants and state employees.

In the Bureau for Execution of Criminal Sanctions during 2008 coefficients for determining fixed part of salaries have been increased by 30% without the proper decision of the Ministry of Finance about the variable part of the salary, which means that the Bureau was paying salaries based on the article 3 item 3 point 1 of the Law on Changes and Amendment to the Law on Civil Servants and State Employees’ Salaries (“Official Gazette of MNE”, No.17/07) which ceased to be valid with the publication of the Decision of the Constitutional Court of Montenegro U.No.11/08.

With the insight into the payroll list of the Agency for Medicines and Medical Resources it has been determined that, starting from May 2008, based on the Rule Book on Closer Criteria and the Way to Determine the Variable part of the Salaries of Civil Servants and State Employees (“Official Gazette of MNE”, No. 23/08), all employees in the Agency have received variable part of the salary amounting 51,200.00 or 43.98% compared to net salaries.

In accordance with the said Decision of the Government in 2008, the Police Directorate has paid variable part of the salary to employees based on the management decisions and decision of the Ministry of Finance.

Based on the above said, we believe that the application of the variable part of the salary institute needs to be improved, which would be based on the objective estimates of the performance and we recommend to the Government that until new solutions in this area are implemented, it should provide for obeying of the existing primary and subordinate legislation.

**10. Over hours work**

It has been determined through the audit that in spending units Courts, Prosecutor’s office and Constitutional Court over hours work has been implemented, due to increased number of unsolved
settlements, during the year 2008. Over hours work in these spending units of the budget has been organized on Sundays from 8-16.00.
In none of the cases the legal procedure to inform Labor Inspectorate about over work hours has been respected.

Work over hours introduced in a described way, is not accordant with the Law on Labor (“Official Gazette of RMNE”, No.43/03 and 25/06), or with the new Law on Labor (“Official Gazette of MNE”, No.48/08 as of August 15th, 2008). The Law on Labor stipulates that “the working hours of employees can last longer than working hours (over hours), if the work with adequate organization and working time cannot respond to the suddenly increased volume of work.”

This means that over hours work is the work that is conducted after the working hours in working days of five days week, as well as that the work longer than the fulltime work can be introduced because of the sudden increase of the volume of work. Labor Inspectorate needs to be informed about the introduction of the longer working hours 3 days following the introduction of the over hours work.

Since the over hours work in the said spending units is lasting for years and it is not a consequence of the increased volume of work, it is obvious that a better solution would need to be implemented - new people should be employed at those position where there are problems in the working process and not to introduce over hours work for all categories of employees, which is opposed to legal provisions.

Appointment

It has been determined with the audit that the state authorities employ persons with elementary studies (applied and academic ones), that last for three years, with Bachelor degrees and that they are appointed at positions that demand four-year studies to be completed. We believe it is necessary to define at which level of classification this Diploma belongs, i.e. the level of education, as well as other diplomas and levels of education (specialist, MA, PhD), which are gained with the completion of a specified study program, while the work on adoption of the national framework of qualifications needs to be accelerated.

Apprentices

As stipulated by the article 98 of the Law on Civil Servants and State Employees “the apprentice is a person that is signing employment contract for the first time in state authority to gain skills to independently perform duties”. It has been determined that these persons are paid from the funds for salaries of the budget users at which they are employed, while Employment Agency refunds apprentice salaries at the bank account of budget users, i.e. account of the State Treasury. It is expected that with the integration of the Employment Agency into the State Treasury System, the timely payment of these funds to end users will be regulated. It has also been noticed that after the implementation of the Proposal for the amendments on the Conclusion of the Government No.03-2280 as of February 20th, 2009, which has excluded employment of apprentices, an enormous number of apprentices has been employed in individual state authorities and they now make 50% of the stuff.

Expenditure on material and services

By auditing accounts related to the expenditure on stationery and services, partial non-appropriated spendings were found, and a part of budgetary expenditure, even after the funds had been transferred, was paid from other budgetary items.
Expenditures for business trips

It has been determined that non-earmarked funds have been paid for business trips from other items, which leads to inadequate presentation of these expenditures in financial statements of the spending units, and in the Budget Accounts of Montenegro. Non-earmarked funds for business trips have been registered in:

Montenegrin Academy of Science and Art. It has been determined that on December 31st, 2008 at item - Advance payment, an amount of 96,724.69€ has been recorded. The advance payments have been made for printing and preparation for print of the academic publications to suppliers, services of accommodations and for airline tickets. It is recommended that “MASA” does not make any advance payments to suppliers, because it is crediting supplier with advance payments and budget expenditures are shown unrealistically.

In the Ministry for Protection of Human and Minority Rights, business trips amounting 41,000.00€ have been expensed in the item - contracted services, which represents 102.50% of the planned funds for this item.

In the Ministry of Maritime Affairs and Transport, four employees have opened bank accounts in CKB for MC standard debit cards that they use to pay costs while traveling abroad. We believe that the way these cards are used has not been regulated with legally positive regulations, and this is why we deem it necessary that the Ministry of Finance should adopt an adequate document that would regulate issuance and usage of all official credit cards.

Secretariat for Development has expensed airline tickets in item 4139 – contracted services.

Directorate of Public Procurements has paid costs of airline tickets from item - contracted services, amounting 3,754.72 or 19.06% of the planned expenditures for business trips.

We recommend to the Government to provide strict abiding by the Instructions on State Treasury with cash-in-hand (“Official Gazette of MNE” No. 02/09) and Rule Book on Fees and Other Remunerations to Civil Servants and Other State Employees (“Official Gazette of RoM”, No.24/05, 42/05, and 70/06) and that only payments that cannot be paid except from cash are paid from cash-in-hand, in order to decrease cash transactions.

Telephony services expenditures

At this group of accounts, requests for payment and payments related to the usage of fixed-line and mobile phones are recorded.

In Directorate of Transport expenditures from this budget item are not recorded realistically since one part of obligations is paid directly to the supplier, and for the most part suppliers are compensated based on conducted services for implementation of phone installations in magisterial and regional roads.

In the Secretariat for Development payment to suppliers based on the supply of goods and services has been made, as well as payment of money to individuals, from this item.

By auditing of individual spending units it has been determined that they do not have integral rules on usage of mobile phones for official purposes, so that we recommended adoption of rules on their usage and formalization of existing limits.
**Contracted services**

Secretariat for European Integrations at item 4139 – contracted services has recorded CARDS donation, based on the contract made with the European Agency for Reconstructions. CARDS donation is planned with the rebalance of the budget in full amount of EUR620,000.00, which would mean that it is necessary that the same is spent until the end of 2008, which is not according to the Donation Contract signed with the European Agency for Reconstruction. The Donation Agreement predicts that the implementation of the projects lasts for 15 months. Regarding the fact that at the point when Law on Changes and Amendments to the Budget Law (“Official Gazette of MNE”, No.46//08)was enacted, it was certain that the funds from the above-mentioned donation will not be paid, nor implemented by the end of 2008, the budgeting of the same at the end line lead to unrealistic execution of the budget of the Secretariat.

Secretariat for Development has made non-earmarked payments from item 4139 - contracted services with determined amount of 534,761.69€ or 11% of the controlled sample, for: computer equipment, fees for work in expert groups and project teams, services, airline tickets and other representation costs.

Ministry of Transport, Maritime Affairs and Telecommunications has made non-appropriated payments from item 4139 that relates to the business trips, fees to employees, fees for work in commissions, project teams, operative teams and working groups, representations. Ministry of Transport, Maritime Affairs and Telecommunications has made non-appropriated expenditures for business trips from item contracted services, amounting 131,569.54€ or 365.53% more than planned.

Directorate of Public Procurements – from item 4139 – contracted services has made non-earmarked payment to employees for fees in working groups during 2008, amounting 17,150.00€ or 44.29% of the gross expenditures in this item. We believe that fees for work of employees in working groups are personal income and that they should be planned and recorded in group 412 – Other personal income. We also believe that in specific number of cases working groups should not have been formed since they were performing duties of the Directorate determined with the Bylaw on Organization and Way of Work of the State Administration and Rule Book on Internal organizations and Systematization of Employees’ Posts.

Directorate for General Affairs of the State Authorities has made non-earmarked payment from item - contracted services in determined amount of 91,615.00 or 31.65% of the controlled sample. Non-earmarked payment relates to: bonus for employees, fees for March 8th, fees for work in commissions.

Commission for Determination of the Conflict of Interests has made non-appropriated payment from item - contracting services amounting 21,876.45€ or 34.80% of controlled sample. The non-appropriated payment relate to: accommodation services, awards for March 8th, maintenance of vehicles, office materials, fees for unused annual leave, plane tickets.

Refugee Office has made non-earmarked payment from item - contracting services amounting 23,704.17€ or 40% of the total expensed funds from this item.

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Statistical Office – Monstat – has made non-earmarked payment from item 4139 – contracted services amounting 43,800.00€ or 14.38% of the controlled sample for awards to employees.

Directorate for Civil Aviation has made service contracts for regular activities in competence of this authority, for the longer period of time, without advertising the needs for working posts.

We believe that while employing new people care should be taken to abide by legal regulations that define employment relations and the way in which employment contracts should be made and the way people are appointed to positions according to their level of education.

It is recommended to budget users to abide by the article 69 of the Rule Book on Organization and Way of work of the State Administration (“Official Gazette of MNE”, No. 54/04 to 43/09), which provisions the way project groups, teams and other forms of work are established. The document on establishment of the project group, team or other forms of work needs to allocate funds, determines the constitution, tasks and deadlines in which the work will be completed and the work report publicized.

It is recommended to spending units that the request procedures for the expenditure of budget funds prescribed by articles 11 and 35 of the Budget Law and point 39 of the Book of Rules on Functioning of State Treasury should be consistently implemented.

11. **Maintenance costs**

In this group of accounts contracting services, requests for payments and payments that are related to costs intended for maintenance of public infrastructure, building objects and equipment, are recorded. The maintenance includes, cleaning, removing of faults, routine exams, lubrications and removal of smaller breaks.

Based on the presented accounting books, that justify these expenditures, it has been determined with sampling method in Secretariat for Development that at item – Maintenance costs - expenditures for procurement of equipment, office material, advertising material, support payment to individuals, as well as cash payments from cash-in-hand have been made.

In Forestry Directorate the controlled sample at this item amounts 31,129.00€ or 100.00%, and it has been determined that non-appropriated expenditure of funds amounting 18,067.67€ or 58% has been made. The funds have been used to pay part of the obligations for acquisition of fixed-assets (business building), office material and official car.

**Rental expenditures**

Realized expenditures at this item amounted 8,260,904.68€ or for 3,466,281.52 more compared to 2007. The increase of rental costs has emerged due to the establishment of a higher number of state authorities and representatives abroad. The most part of the funds from this budget item amounting 95.44% is spent to lease facilities. It has been determined that the biggest beneficiaries in this budget item are Ministry of Foreign Affairs with 4,131,038.73€ and Directorate for General Affairs of State Authorities with 2,628,969.45€. Directorate for General Affairs of State Authorities is making payment to lease facilities necessary for political parties and one part of state authorities, while a number of state institutions is paying the rental costs by themselves. Directorate for General Affairs, according to the Decision on Criteria and Conditions to Distribute Costs between the Republic and Local Governance
Units, based on the usage of office premises by State Authorities, is participating in costs (electricity, water, phone, heating, security for facilities, hygiene, and so on), according to the business premises area.

We believe that after the comprehensive records on the state property have been made, the possibility to use official premises owned by the state needs to be questioned, being premises which are not used or represent surplus in some other state body. The state should continue with rationalization of premises and define standards according to which it will regulate the necessary space for one employee. This job should be conducted by newly formed Property Directorate with the support of other state authorities which are involved with or possess records on the state property.

**Redundancy expenditures**

The implemented expenditure for this budget item amounts 20,606,054.77€ or for 15,045,399.93€ more compared to 2007. It has been determined by auditing that the biggest expenditure in this budget item is made with payment to the Trade Union Association in amount of 80.72%. The overview of the presented documentation has showed that the Government, based on the Proposal of Memorandum on the way and dynamics of fees to persons let down in July 2000-December 2007, Conclusion No.03 – 7504 as of July 3rd, 2008, has adopted the said Proposal. The Conclusion has authorized Minister of Health, Labor and Social Welfare to sign the Memorandum with the Trade Union Association on behalf of the Government. The Trade Union Association has been paid 16,634,009.31€ for this purpose at the business account of their Trade Unions. Since these are significant means, the State Audit Institution has asked from the Trade Union Association of Montenegro to provide the information about the way funds have been spend. The Trade Union Association has delivered Report on the Spending of these funds on September 29th, 2009, after which the Institution will decide whether it will make adequate examinations.

3.6.6 **Capital expenditures**

Capital expenditures were implemented to the total amount of 137,723,290.10€, which is 60,148,818.34€ or 43.67% more than in 2007, but 10.60% less than planned in 2008.

Out of the capital expenditure items from the current budget, the expenditure in the total amount of 64,352,430.54€ was implemented, i.e. 46.72% out of the total amount spent for the capital expenditures. From the capital budget, the implemented expenditure was 73,370,859.46€ or 53.28% out of the total amount spent on the capital expenditures.

With the audit of the Directorate of Transport it has been determined that this spending unit has made prepaids to suppliers, for obligations from contracts that will be executed in 2009, in the determined amount of 6,121,199€. The said amount was transferred to the account of contractors, based on the Agreement on Payment of Obligations that the Directorate has made with contractors during October and November 2008. The agreement predicts the advance payments of obligations in a way that the interest rates in absolute amount for transferred means have been calculated, and the amount of the calculated interest rates will serve to decrease liabilities in the final account of the performed works on the project, i.e. with the payment of final annuities.

Regardless of the good sides of the made agreement we believe that the estimate of this practice with deferred payment, due to the changed dynamics of payments of loans, could lead to the violation of the principle of equality of contractors in previously conducted procurement procedures.
3.6.6.1 Item 4413 – expenditures for buildings (funds to solve residential needs)

By the Decision of the Commission for residential issues No. 09-7987/4 and 09-11688/18 from 2008, the first and the second transfers for interest rates have been made in the project “250 apartment loans through business banks” in 2007 totaling 1,587,568.15€. In addition, in 2008 according to the decision of the Commission No.09-7987/3 as of July 22nd, 2008, third transfer of interests rate has been paid for project “1,000 apartment loans through commercial banks” amounting 1,280,893.99€.

According to the Conclusion of the Government and Decision of the Commission to solve residential needs, on December 31st, 2008, several state authorities have transferred money totaling 2,223,213.05€ to the bank account number 510-809505, opened with CKB Bank. In this budget item funds from following state authorities have been transferred:

<table>
<thead>
<tr>
<th>No</th>
<th>Name of authority</th>
<th>Amount</th>
<th>Items from which funds have been allocated</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ministry of Justice</td>
<td>56,668</td>
<td>411 412 413 414 416 418 431 441</td>
</tr>
<tr>
<td>2</td>
<td>Ministry of Defense</td>
<td>219,000.00</td>
<td>219,000.00</td>
</tr>
<tr>
<td>3</td>
<td>Police Directorate</td>
<td>667,810.00</td>
<td>35,000.00 119,000.00 100,000.00 370,000.00 43,810.00</td>
</tr>
<tr>
<td>4</td>
<td>Tax Administration</td>
<td>325,000.00</td>
<td>325,000.00</td>
</tr>
<tr>
<td>5</td>
<td>Ministry of Tourism</td>
<td>118,000.00</td>
<td>118,000.00</td>
</tr>
<tr>
<td>6</td>
<td>Agency for National Safety</td>
<td>210,000.00</td>
<td>210,000.00</td>
</tr>
<tr>
<td>7</td>
<td>Ministry of Transport</td>
<td>44,385.00</td>
<td>44,385.00</td>
</tr>
<tr>
<td>8</td>
<td>Ministry of Economic development</td>
<td>250,000.00</td>
<td>100,000.00 150,000.00</td>
</tr>
<tr>
<td>9</td>
<td>Hydro-meteorological bureau</td>
<td>32,000.00</td>
<td>32,000.00</td>
</tr>
<tr>
<td>10</td>
<td>Secretariat for European Integrations</td>
<td>21,301.44</td>
<td>18,331.00 600.00 1,300.00</td>
</tr>
<tr>
<td>11</td>
<td>Parliament of Montenegro</td>
<td>219,618.06</td>
<td>118,000.00 112,000.00 16,000.00 60,000.00 89,018.06</td>
</tr>
</tbody>
</table>

Total 2,223,185.50 447,331.00 36,070.00 875,653.00 1,300.00 118,000.00 370,000.00 253,810.00 121,018.06

In 2009 agreement has been made about loans to all beneficiaries that have credit loans above 10,000€. We believe that with the aim to implement Decision on allocation of funds for solving residential issues more quality monitoring needs to be implemented over payment of provided loans, which is one of the Recommendations made by the State Audit Institution in Annual Report for period October 2007 – October 2008.

3.6.6.2. Item 4415 – Equipment expenditures

At this analytical account demands for payment and payments which are related to procurement of transport means, computer equipment, office equipment, telecommunications equipment, medical equipment, mechanizations, equipment for public order and safety, defense and other equipment is recorded. In the Agency for Medicines and Medical Resources, it has been determined that non-appropriated assets for development of software have been allocated from this item. Tested sample showed that 28,435.00 or 28.44% for development of software has been spend in this item. This expenditure should have been recorded in the appropriate item, 4139-4 – Development and Maintenance of Software.

3.6.7. Loans and loans to financial institutions

Requests for payments and payments related to all expenditures made on the basis of payments with which financial institutions are approved funds for a certain period of time, are recorded in this item, the financial institution needs to return the value received with specific interest rate in equal periodical annuities or in one-off payment. Budget plan for 2008 does not predict funds for this item, while the expenditures in this item amounts 44,000,000.00€. The funds in the said amount are related to the
credit support that the Government of Montenegro has granted to the First Bank in accordance with the article 5 of the Law on measures to protect banking system ("Official Gazette of MNE", No.64/08 as of October 27th, 2008) which was adopted by the Parliament of Montenegro based on the urgent procedure.

The Government at the session held on December 11th, 2008, in accordance with the said Law and Opinion passed by the Central Bank of Montenegro, has made a conclusion based on which it has authorized Ministry of Finance to make a contract with Prva banka on Credit support No.01-9510/1 as of December 17th, 2008. With the examination of the excerpt from the Central Bank No. 246/1 as of December 18th, 2008 it has been determined that the said funds have been transferred from the account of the State Treasury to the account of Prva banka.

With the said Agreement on Credit support, and the annual interest rate of 2.5%, the loan has been approved for period of 3 months from the day this agreement has been made with the possibility to extend the deadline for a year at the most. To secure this payment the Government has made an Agreement about the mortgaging of bonds No.01-9509 as of December 17th, 2008, with Prva Banka as well as mortgage amounting 100% stake in capital of the bank.

The payment has been made in accordance with the Law on Protection of the banking system, but at the same time materialization in annual Budget law has not been made.

3.6.8. Outstanding debts from previous period

At this item requests for payment and payments related to all expenditures based on the payment of debts older than a year are recorded. The implementation of the expenditure at this item amounted 50,479,372.39€, i.e. 87.93% of the item. The transfer of funds from this budget item related to the following payments:

Other extraordinary payments to the pension users of the Pension and Disability Insurance Fund emerged due to the implementation of the Law on Compensation for Users of the Right on Pension and Disability Insurance. The funds have been transferred to the accounts of commercial banks in accordance with the decision made by the Ministry of Finance.

The payment of the part of the debt based on the currency savings of citizens caused by the application of the Law on regulation of obligations and accounts payable based on foreign debt and currency savings of citizens.

Redemption of bonds of PDIF (PIO) with which electricity has been paid.

Payment of court settlements amounting 6,878,351.23€. We draw attention to the amount of payments based on court settlements, since we have noticed that these payments are not made based on the court ruling, but based on the executive procedure which increases the expenses in 99% cases. Since the larger number of settlements is related to spending units, we believe it is necessary to maximally engage State Prosecutor’s Office and individually each sued authority to synchronize and in timely manner conduct procedures that could decrease costs of court rulings.

Our recommendation to the Government is to adopt an act which would provide timely delivery of court rulings to the State Treasury, with synchronized participation of the State Prosecutor’s Office and the sued spending units of the budget, in order to avoid unnecessary consumption of budget funds in court proceedings.
3.6.9. State debt of Montenegro

Records of the state of the budget liabilities are made pursuant to article 7 of the Bylaw on Consistent Accounts’ Classification for the State Budget, Extra-Budgetary Funds and Municipal Budgets.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>International Bank for Reconstruction and Development (IBRD)</td>
<td>195.1</td>
<td>8.6%</td>
<td>26.5%</td>
<td>187.1</td>
<td>5.6%</td>
<td>20.9%</td>
</tr>
<tr>
<td>International Financial Organization (IFC)</td>
<td>8.8</td>
<td>0.4%</td>
<td>1.2%</td>
<td>7.8</td>
<td>0.2%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Countries members of the Paris Creditor Club</td>
<td>136.4</td>
<td>6.0%</td>
<td>18.5%</td>
<td>132.7</td>
<td>4.0%</td>
<td>14.1%</td>
</tr>
<tr>
<td>International Development Association (IDA)</td>
<td>43.0</td>
<td>1.9%</td>
<td>5.8%</td>
<td>54.9</td>
<td>1.6%</td>
<td>6.1%</td>
</tr>
<tr>
<td>European Investment Bank (EIB)</td>
<td>37.0</td>
<td>1.8%</td>
<td>5.0%</td>
<td>36.4</td>
<td>1.1%</td>
<td>4.1%</td>
</tr>
<tr>
<td>EBRD</td>
<td>3.6</td>
<td>0.2%</td>
<td>0.5%</td>
<td>8.5</td>
<td>0.3%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Development Bank of Council of Europe</td>
<td>2.2</td>
<td>0.1%</td>
<td>0.3%</td>
<td>1.4</td>
<td>0.0%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Europe Community</td>
<td>5.5</td>
<td>0.2%</td>
<td>0.7%</td>
<td>5.5</td>
<td>0.2%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Credit Bank for Reconstruction – Germany (KfW)</td>
<td>8.7</td>
<td>0.4%</td>
<td>1.2%</td>
<td>11.5</td>
<td>0.3%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Austrian Credit</td>
<td>4.1</td>
<td>0.2%</td>
<td>0.6%</td>
<td>4.1</td>
<td>0.1%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Anglo Yugoslav Bank</td>
<td>0.3</td>
<td>0.0%</td>
<td>0.0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hungarian Credit</td>
<td>8.5</td>
<td>0.4%</td>
<td>1.2%</td>
<td>11.8</td>
<td>0.4%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Polish Credit</td>
<td>8.4</td>
<td>0.4%</td>
<td>1.1%</td>
<td>11.3</td>
<td>0.3%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Society General – Education IT</td>
<td>0.5</td>
<td>0.0%</td>
<td>0.1%</td>
<td>2.1</td>
<td>0.1%</td>
<td>0.2%</td>
</tr>
<tr>
<td>French loans</td>
<td>0.0</td>
<td>0.0%</td>
<td>0.0%</td>
<td>6.6</td>
<td>0.2%</td>
<td>0.7%</td>
</tr>
<tr>
<td>I Total Foreign loans</td>
<td>462.1</td>
<td>20.3%</td>
<td>62.7%</td>
<td>481.7</td>
<td>14.4%</td>
<td>53.8%</td>
</tr>
<tr>
<td>Creditor – domestic debt</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Old currency savings</td>
<td>90.0</td>
<td>4.2%</td>
<td>13.1%</td>
<td>117.5</td>
<td>3.5%</td>
<td>13.1%</td>
</tr>
<tr>
<td>Debt to local self governances</td>
<td>53.2</td>
<td>2.3%</td>
<td>7.2%</td>
<td>42.4</td>
<td>1.3%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Compensation debts</td>
<td>125.4</td>
<td>5.5%</td>
<td>17.0%</td>
<td>116.8</td>
<td>3.5%</td>
<td>13.1%</td>
</tr>
<tr>
<td>Loans with commercial banks</td>
<td>0.0</td>
<td>0.0%</td>
<td>0.0%</td>
<td>35.2</td>
<td>1.1%</td>
<td>3.9%</td>
</tr>
<tr>
<td>Loans with non-financial institutions</td>
<td>0.0</td>
<td>0.0%</td>
<td>0.0%</td>
<td>15.9</td>
<td>0.5%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Pensions</td>
<td>0.0</td>
<td>0.0%</td>
<td>0.0%</td>
<td>85.7</td>
<td>2.6%</td>
<td>9.6%</td>
</tr>
<tr>
<td>II Total domestic debt</td>
<td>275.1</td>
<td>12.1%</td>
<td>37.3%</td>
<td>413.0</td>
<td>12.4%</td>
<td>46.2%</td>
</tr>
<tr>
<td>Total state debt I + II</td>
<td>737.2</td>
<td>32.4%</td>
<td>100.0%</td>
<td>894.7</td>
<td>26.8%</td>
<td>100%</td>
</tr>
</tbody>
</table>

The table shows the gross debt of Montenegro on December 31st 2008, amounting 894.7 million euro or 26.8% of gross national products, compared to 2007. The debt increased in nominal amount by 157.5 million euro but it also decreased by 2.2% in proportional amount compared to gross national products (estimated GDP for 2008 amounted 3,338.00 million euro).

3.6.9.1. Outstanding debts

Pages 192-194 or the Proposed Financial Statements show gross outstanding debts in the budget and state funds according to their structure and amounts. Outstanding debts in the budget amount 24.52 million EUR, and of the state funds 64.34 million EUR, which totals 88.86 million EUR.

Pursuant to the Budget Law, the Ministry of Finance has recorded information about the state debt and issued guarantees at the end of the year. We deem it necessary that the Report also includes information about foreign and domestic debts of the state so that the comprehensive information about the gross debt at the end of the year is provided. Taking in consideration the structure of the Report on
outstanding debts, it is certain that outstanding debts of the budget and state funds are not incorporated in the state of the country’s debts on December 31st, 2008.

We recommend to the Ministry of Finance to update the records on outstanding debts in the forthcoming period in accordance with amended article 16 of the Budget law.

3.6.10. Current and permanent budget reserve

3.6.10.1. Current budget reserve

This item records requests for payments and those payments that relate to all expenditures made based on the payment from current budgetary reserve. Expenditures amounting 11,049,826.11€ have been recorded in this item. The funds from the current budgetary reserve have been paid to state authorities, business entities, physical persons, municipalities, public institutions, sports clubs, according to the Government Conclusion and Decisions of the Office of the Government and Budget Board. From the documentation reviewed, it was found that, apart from the emergency and incidental expenditure, payments from the current reserve were also made to certain state authorities, which is not accordant to the article 33 of the Budget Law (“Official Gazette of MNE, No. 40/01, 44/01, 71/05 and 12/07).

It was also noticed that part of the funds provided for spending units from current reserves by the Decision of the Government, the spending units have spent not taking care of the purposes approved by the conclusion, which is a practice that needs to be eliminated. Procurement of vehicles, IT and other equipment needs to be conducted in accordance with the Law on Public Procurement and Public Procurements Plan, for the budget year with previously allocated funds. Payment of salaries and payment of expenditures for material and services from this item leads to the unrealistic records of the expenditure of budget users since this consumption is not recorded in financial statements. Funds from the current reserve amounting 5.5 million EUR have been used by 27 state authorities and institutions.

Because of the way in which budget funds from current reserve are used, the State Audit Institution has, within the Audit Report of the Budget Accounts for 2007 that was adopted by the Parliament of Montenegro, recommended that the Ministry of Finance respects its obligation determined by the article 33 of the Budget Law and provides closer criteria for usage of budget funds, as well as that this criteria is stipulated in the annual Budget Law. Ministry of Finance has adopted a Rule Book on closer criteria for usage of budget funds of the current and permanent budgetary reserves (“Official gazette of MNE”, No. 23/09 as of March 31st, 2009) that has included previously defined examples in this legal document.

3.6.10.2 Permanent budgetary reserve

This item records requests for payment and payments related to all expenditures based on the payments from permanent budgetary reserve. 1,500,000.00€ has been allocated for this item, and 1,390,000.00€ has been spent. Funds to the State Electoral Commission have been allocated from this item to conduct elections for the President of the Republic which have been held on April 6th, 2008. The transferred amounts included costs of the work of the State Electoral Committee and transfer of funds to Presidential candidates based on the results of elections. Unspent funds amounting 110,000.00€ were returned to the General Account of the State Treasury after the elections.

3.6.11. Payment of cash from State Treasury

Procedures for payment of cash from State Treasury are stipulated by articles 318 and 341 of the Instructions on State Treasury (“Official Gazette of MNE”, No. 64/01, as of December 29th, 2008) and
the Rule Book on Fees and Other Remunerations to Civil Servants and State Employees ("Official Gazette of MNE", No.24/05, 42/05 and 70/06).
In 2008, through the State Treasury, cash for the needs of spending units amounting 8,570,417.57€ has been paid, which is 808,929.09€ or 9.46% more than in 2007. According to overview of the raised cash of the State Treasury it has been determined that the cash is raised from all available items, which influences relatively high spending of cash. The biggest users of cash are:

<table>
<thead>
<tr>
<th>Organization</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Police Directorate</td>
<td>1,433,296 EUR</td>
</tr>
<tr>
<td>Ministry of Defense</td>
<td>1,3134,237 EUR</td>
</tr>
<tr>
<td>Parliament of Montenegro</td>
<td>440,000 EUR</td>
</tr>
<tr>
<td>Ministry of Interior Affairs and Public Administration</td>
<td>429,340 EUR</td>
</tr>
<tr>
<td>Ministry of Foreign Affairs</td>
<td>368,000 EUR</td>
</tr>
<tr>
<td>Ministry for Economic Development</td>
<td>301,482 EUR</td>
</tr>
<tr>
<td>Property Directorate</td>
<td>225,443 EUR</td>
</tr>
</tbody>
</table>

Ministry of Defense and Police Directorate are the biggest cash consumers and they make up for 2,746,533 EUR or 32.04% of the total cash spent, which is for 397,958 EUR or 14.48% more than in 2007.

It has been determined through the audit that payments have been made through treasuries of individual spending units to persons who are not employed in the spending unit, to provide services, recording, transport or similar.

We believe that during the appointment of persons who are not employed in the state administration authority, Service Contracts should be made and the payment defined by the Contract.

It has been determined through the audit that payments which should be efficiently realized through the State Treasury account are made through treasuries (material expenditures, transport costs, and separate life from family, field costs, scholarships, plane tickets, fees, etc.).

It has also been determined that in individual spending units expenditures made with non-cash bills are recognized, without specification of the conducted services.

It is recommended that only payments based on valid documentation, which cannot be realized in non-cash form, are conducted through treasury, in order to decrease cash transactions.

**Public procurement procedures assessments**

Public procurements have been regulated with the Law on Public Procurements ("Official Gazette of MNE", No.46/06) and subordinate legislation adopted in accordance with this law. When assessing public procurement procedures with the audited spending units, several deficiencies (omissions) in the application of the Public Procurement Law regulating the area in question were found.
Public procurement plan

The Law on Public Procurements, with the article 27 stipulates that the beneficiary can start the public procurement procedure solely if it has been planned with the public procurement plan. The beneficiary that intends to make public procurement during the year with the amount superseding EUR10,000 needs to publicize open call for public procurements at latest by the end of the previous year.

It has been determined through the audit that the public procurement plan for 2008 has not been made by: Secretariat for European Integrations, Directorate of Civil Aviation, Commission for Determining of the Conflict of Interests and Montenegrin Academy for Science and Art. The worrying fact is that several spending units are conducting public procurements without adopted plans on public procurements, which made us conclude that financial plans of spending units have not been complied with clear projections of their development for one year fiscal period.

Open call for public procurements

Open call for public procurements is a basic way of procurement, for which open call is publically announced, and in which all persons that have interest to get contracts can submit their bids, in accordance with demands and conditions provided by the open call and tender documentation. By auditing, it has been determined that the procurements over 10,000€ have been made, without the opening of the legally binding procurement procedure.

With Montenegrin Academy of Science and Art it has been determined that the procurements amounting 129,031.76€ have been made, without opening of the legally prescribed procedure.

With the Statistical Office it has been determined that the procurements have been made amounting 50,590.56€, without opening of legally prescribed procedure.

With the Ministry of Transport, Maritime Affairs and Telecommunications it has been determined that the procurements have been made amounting 42,783.19€, without opening of legally prescribed procedure.

The said procurements have been awarded with direct agreement, opposite to articles 18, 19 and 32 of the Law on Public Procurements, and opposite to principles of public procurements: efficiency principle and efficacy in usage of public funds, competitiveness, transparency of procedure and equality of bidders (articles 5-8 of the Law).

4.8. Negotiating procedure without previous call for public procurement

The negotiating procedure without previous publication of the open call represents a procedure in which the beneficiary is negotiating with one or more bidders about the conditions of the contract, and in which it is not necessary to publicize an open call. The legislator has predicted the obligation to provide previous approval from the authorized state body, for the transparency of the procedure, since this is the least transparent one, in which competitiveness and equality of bidders is limited to one or several bidders.
The Secretariat for Development has conducted a negotiating procedure without previous publication of open call, for public procurement of cooperation services and licensing of software for Microsoft techniques, Microsoft support programs related to ICT, Microsoft contribution to development of ICT sectors and usage of licensed software, for the needs of state authorities and institutions, based on which contract on strategic partnership has been made on December 18th, 2008 worth 4,551,783.30€ for a three year period.

Directorate for Public Procurements has made an approval for this procurement for the significantly smaller amount, i.e. for estimated value of the public procurement valued at 1,500,000.00€. Secretariat for Development has paid to the supplier 2,420,698.80€ on December 25th, 2008.

4.4 Public procurement of small value – Direct Agreement

Article 78 of the Law predicts that the public procurement with value up to EUR2,000.00 can be conducted with direct agreement, but that the gross annual amount of public procurements made with direct agreements should not supersede 10% of the annual procurement budget.

It has been determined thought the audit that the violations of the article 78 of the Law on Public Procurements has been made on regular basis and that the amount of these procurements significantly supersedes the 10% of the annual procurement budget.

With Secretariat for European Integrations public procurements conducted with direct agreement amounted 176,528€ or 95% of the total budget for public procurements.

With the Parliament of Montenegro, procurements conducted with direct agreement amounted 830,004€ or 70.52% of the annual procurement budget.

With Directorate for Public procurements, procurements made with direct agreement have amounted 12,249€ or 33.85% of the total annual procurement budget.

4.4.1. Records on the direct agreements

Article 78 of the Law stipulates that the official for public procurements is obliged to record all public procurements which are conducted with the direct agreement and shows the value, number and the name of the supplier in the annual financial statements to the authorized administration authority.

It has been determined that the Directorate of Civil Aviation and Directorate for Medicines and Medical Resources are not keeping records on the public procurement made with direct agreements.

State property

Ministry of Finance is obliged to manage state property and maintain records on the state property. Ministry of Finance has delivered Report on the State of the Property in 70 budget beneficiaries with reports on listing on their subsidiaries in which the state of the state property has been recorded. The report also includes the value of buildings and land, computer equipment, office equipment and furniture, telecommunications equipment, art works and other equipment with data on the purchase value, impairments and current value.
Annual Report of the State Audit Institution for period October 2008 – October 2009

Transferring means

Based on the report on property inventories of spending units which have been included in the budget, it has been determined that there are some irregularities as far as procurement of vehicles is concerned. Budget users have procured various types of vehicles for official needs, such as: Mercedes, Peugeot, Renaults, W Touareg, W Passat, W Golf, Audi, Skoda, Hyundai, Lancia and others. The conclusion is that the procurement of vehicles is completely decentralized, and let to the will of the budget users, as well as that there are no standards about the type and class of the vehicle that the state bodies can procure.

It is recommended that the Government adopts a document which would regulate legal rights and obligations of budget beneficiaries when using and procuring official cars, with the obligation to apply the same in all authorities of the state administration with necessary transparency of usage procedures.

We must note here that the Law on State Property and Law on Legal Property Relations have not been adopted in 2008, or subordinate legislation on recording and movement of state property. We remind you that based on the Law on Property of the Republic of Montenegro from 1999, not a single subordinate legislation has been adopted that would regulate public procedures for procurement, recording and changes in state property, and the State Audit institution has been putting emphasizes on this issue in previous reports and recommendations adopted by the Parliament of Montenegro.

The problem with the recording and changes in state property is still present since budget users that manage the state property do not report about its state and we express reserve for the accuracy of data from the Report, especially summary of that provided data that is practically impossible to be conducted in an appropriate way. We also believe that in accordance with the Budget Law and Report on property inventories, obligations and accounts receivable of the funds, they should be part of the Report of the Ministry of Finance.

Budget of state funds

System of the transfer of funds to budget users is not completely adjusted to the needs of full integration of the funds in the State Treasury system. It has been determined through the audit that the full integration of the Employment Agency and Compensation Fund into the state treasury system has not been conducted, while integration of Pension and Disability Insurance Fund is not completed, and Health Insurance Fund and Development Fund need to be integrated.

The Law Amending and Supplementing the Budget Law of Montenegro (“Official Gazette of Montenegro”, No. 12/07 as of December 14th, 2007) stipulates that the extra-budgetary funds shall become state funds with the obligation to harmonize their organization and general acts in accordance with the provisions of the Budget Law as of December 31st, 2008. It has also been determined through the Audit that the Employment Agency and Compensation Fund are completely integrated into the State Treasury System, while Pension Insurance Fund and Health Insurance Fund are partly included in the budget since their incomings are transferred through the State Treasury bank account, while outflows are realized by the Fund. The Development Fund, in the controlled period, has been operating independently from the State Treasury System and it has been maintaining the accounting and financial statements as stipulated by the Law on Accounting and Auditing, not considering the Budget Law which treats it as a state fund, while at the same time, the Bylaw and organization of the Fund have not been complied with the adequate legal solutions.
The recording system in Pension and Disability Insurance Fund is based on cash transfers, based on which the transaction is recorded if the moment cash is received or paid. Pension and Disability Insurance Fund applies provisions that regulate accounting policies of budget users and data contained in the financial reports of the Fund correspond to the data recorded in the Budget Account Law Proposal.

The recording system of the Health Insurance Fund is based on modified accounting system according to which outflows are recognized based on the business events in the reporting period, independently from payment, while income is based on the income of funds in the reporting period. The Fund and the Public Health Institutions are maintaining business books in accordance with the Rule Book on Accounting and Chart of Accounts Plan of the Budget and Extra-Budgetary Funds from 2003, which has been put out of force in 2005 with the application of the Rule Book on Consistent Accounts’ Classification for the State Budget, Extra-Budgetary Funds and Municipal Budgets. The said conditions have been determined with the audits of the financial statements of the Republic Health Insurance Funds for 2006 that have been made by the State Audit Institution.

It is necessary that the authorized ministry, according to its competences, takes all necessary steps to eliminate legal inconsistencies as far as status of the Development Fund is concerned and the adequate legal solutions are processed with the aim to positions them better (see individual Statement of the Development Fund).

It has also been determined that the funds have kept their bank accounts with commercial banks, which means that they have not acted upon article 37 of the Law on Changes and Amendments to the Budget Law of Montenegro, and these funds have not been transferred to individual bank accounts in the Consolidated Treasury Accounts.

The statement on the cash flows according to economic classification shows income and expenditures of state funds according to their structure. Since the classification is different, Health Insurance Funds has prepared Report on Cash Flows based on the data in gross balance, and data from the statement of the Fund are different from those recorded in Draft law on Financial Statements for 2008 in items:

<table>
<thead>
<tr>
<th>Account</th>
<th>Name of account</th>
<th>Fund</th>
<th>Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>424</td>
<td>Other rights from health insurance</td>
<td>17,725,072.00</td>
<td>15,724,080.00</td>
</tr>
<tr>
<td>425</td>
<td>Other rights in health insurance areas</td>
<td>8,557,966.00</td>
<td>7,567,643.00</td>
</tr>
<tr>
<td>431</td>
<td>Transfers to institutions, individuals, NGO and public sector</td>
<td>138,951,686.00</td>
<td>143,914,040.00</td>
</tr>
<tr>
<td>441</td>
<td>Capital expenditures</td>
<td>3,709,144.00</td>
<td>1,738,105.00</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>168,943,868.00</td>
<td>168,943,868.00</td>
</tr>
</tbody>
</table>

Health Insurance Fund has delivered explanation for the said items for the needs of the audit, in realization of the plan of the Fund for 2008.

We recommend that:

- The Ministry of Finance conducts changes and amendments of the Rule Book on Consistent Accounts’ Classification for the State Budget, Extra-Budgetary Funds and Municipal Budgets (“Official Gazette of MNE”, No. 37/05 and 81/05), in which the Health Insurance Fund would be able to maintain its records. We propose that new solutions for the Fund are made in the forthcoming period, besides the records it disposes of, to regularly classify payments in accordance with the economic classification that is stipulated by Rule Book on Consistent Accounts’ Classification for the State Budget, Extra-Budgetary Funds and Municipal Budgets.
- Health Insurance Fund should comply its business policy with primary and subordinate legislation that regulate accounting policies of budget users.

- Ministry of Finance should accelerate process of integration of the said funds into the state treasury system in accordance with legal obligations and the funds should close their accounts with commercial banks and transfer money to the special account inside the Consolidated Treasury Account, and act upon the provisos of the article 36 and 37 of the Law on Changes and Amendments to the Budget Law of Montenegro.
II PART

SUMBIMISSION FROM THE FINAL REPORTS
ON THE INDIVIDUAL AUDITS PERFORMED IN 2008
SUBMISSION FROM THE AUDIT REPORT
ON ANNUAL FINANCIAL STATEMENTS OF DEVELOPMENT FUND FOR 2008

Type of audit: General audit
Auditee: Development Fund of Montenegro
Subject of audit: Annual Financial Statements for the year 2008
Audit duration: 90 working days
Auditing team: MA Branislav Radulović and Dragisa Pesić
I  GENERAL INFORMATION ON AUDITEE

Development Fund of Montenegro (hereinafter Fund) was established in 1992 under the Law on Development Fund of the Republic of Montenegro (“Official Gazette of MNE”, No.46/92) and it has begin operating in 1995. It is filed with the Registry of the Commercial Court in Podgorica under the number Fi.Br,211/95 as a limited liability company.

The Fund is a legal entity, with rights, obligations and liabilities determined by the Law (Changes and Amendments “Official Gazette of RoM”, No. 12/07) and the Statute.

Director of the Fund is Dragan Lajović, PhD.

Chief Accounting Officer is Sanja Mihailović.

Representative office is in Podgorica, Bulevar revolucije No.9.

1. Internal organization

The Fund is established as a limited liability company. It operates at profit principles.

The managing body of the Fund is Management Board.

Management Board comprises of seven members. Chairman and six members of the Management Board are appointed and dissolved by the Government of Montenegro.

The Fund is managed by a Director appointed and dissolved of duty by the Government of Montenegro.

Internal organizational units inside the Funds are as follows:

- Investments, accounting and controlling department,
- Securities portfolio and legal affairs department,
- Human Resources, IT and general affairs department.

By the Rule Book on Internal Organization and Systematization of Employees’ Posts of the Fund (decision on adoption of the Rule Book on Internal Organization and Systematization of Employees’ Posts in the Development Fund No. 0202-8/106 as of December 8th, 2006) 17 vacancies have been systematized for conducting works in competence of the Fund. It has been determined through the audit that there were 15 employed people in the Fund on December 31st, 2008.

2. Legal framework for Development Fund of Montenegro operations

The audit has shown that for the efficient functioning of the Development Fund of Montenegro it is necessary to harmonize normative legislation that regulates the work of the Fund. Legislation has not been respected as regards the organization and operations of the Fund.

The confirmation of the above said is reflected in the following:
Competences, organization and the work of the Fund are stipulated by:

- the Law on the Development Fund of the Republic of Montenegro, which defines it as a business entity. ("Official Gazette of RoM", No. 42/92 and "Official Gazette of MNE", No.12/07) while the Statute of the Fund, defines it as a limited liability company.
- The Company Law ("Official Gazette of RoM", No. 06/02 and “Official Gazette of MNE”, No.17/07 and 80/08)
- Budget Law, that defines it as a state fund (“Official Gazette of RoM”, No. 40/01, 44/01, 71/05 and “Official Gazette of MNE”, No.12/07)
- Budget Law of Montenegro for 2008 (“Official Gazette of RoM”, No. 17/07 and 46/08), that treats it as a spending unit in the Budget with allocated funds amounting 22,312,301.39€.

Development Fund of Montenegro was established in 1992 in accordance with the Law on Development Fund of RoM (“Official Gazette of RoM”, No.46/92). It has begun operating in 1995.

Under the Law on Development Fund of Montenegro the Fund is organized as a stock company. The Fund, at the moment of registration, or in the 14 years existence has not been organized as a limited liability company. It has been filed in the registry of the Commercial Court with the decision No.211/95 as of February 6th, 1995, but it was not listed in any form of organization.

Second decision of the Commercial Court Fi.br.1371/02 as of May 22nd, 2002 was issued to the company with the Law on Unique Classification of Activities and Registry of Classification of Units (“Official Gazette of RoM”, No.31/96)

1. It has been determined with the audit that the Fund has not conducted pre-registration in accordance with the Company Law (“Official Gazette of Rom”, No.6/02), and that the same does not exist in the electronic database of the Central Registry of Commercial Court.

Pursuant to the article 10 of the Law on Development Fund of the Republic of Montenegro, managing bodies of the Fund are General Assembly and the Management Board of the Fund. Chairman and members of the Management Board are appointed and dissolved by General Assembly of the Fund, and the Management Board has legal obligation to submit work reports and results of operations to the General Assembly at least twice a year.

2. The audit has shown that the Fund has not established General Assembly, although its competences are very broad.

Article 20 of the Fund’s Statute stipulates that the only managing body of the Fund is a Management Board, while article 22 transfers Assembly’s competences to the Management Board (adoption of the Statute, decision about status changes, i.e. form of organization and decision-making process on issuance and sale of securities – approval of the Government needs to be obtained for these decisions of the Management Board).

3. The Audit has shown that, based on the financial statements of the Development Fund (balance sheet, income statement, changes in net equity statement and cash flow statement, as well as open bank accounts in commercial banks and the state of deposit with the same and other business documents), the Fund is operating outside the State Treasury System and it is maintaining its books of account and makes financial statements in accordance with the Law on Accounting and Auditing (“Official Gazette of RoM”, No. 69/05 and “Official Gazette of MNE”, No. 80/08) and accounting policies of the Development Fund.
On the other hand, provisions of the Budget Law stipulate the key policies of the budget accounts, i.e. principles of recognition of property and liabilities, recognition of revenues and expenditures, plan, as well as business books and books of accounts.

Spending units of the Budget are obliged to ensure information on types of income and revenues in books of accounts, as well as on the state of the property and liabilities in order to make financial statements comprising an integral part of the Budget Accounts of Montenegro, as a source of information about the consumption of public funds, i.e. about whether public funds have been used in accordance with the Law and planned purposes.

The Fund, pursuant to article 30-35 of the Budget Law of MNE for 2008 (“Official Gazette of MNE”, No. 17/07 and 46/08) was obliged to deliver to the Ministry of Finance monthly plans of budgetary expenditures and funds determined by the budget which should have been used according to the dynamics determined with the budget expenditure plan approved by the Ministry of Finance.

The Fund was also obliged to use privatization income and deposit funds with the approval of the Government, as proposed by the Ministry of Finance.

4. It has been determined with the audit that the Fund has not fulfilled its legal obligations stipulated by articles 30 and 34 of the Budget Law of Montenegro for 2008, due to the fact that it has not been operating inside the State treasury system.

3. Accounting system

Basic provisions that regulate accounting policies of budget beneficiaries, to which, according to the Budget Law and Budget Law for 2008, Development Fund of Montenegro also belongs, are Budget Law (“Official Gazette of RoM”, No.40/01, 44/01, 71/05 and Official Gazette of MNE”, No.12/07 and 73/08), Book of Rules on Consistent Accounts’ Classification for the State Budget, Extra-Budgetary Funds and Municipal Budgets (“Official Gazette of RoM”, No.35/05, 37/05 and 81/05) and Rule Book on Drafting, Composing and Submitting Financial Reports on Budgets, Extra-budgetary funds and Local Governments (»Official Gazette of the RoM « No. 21/09).

Development Fund of Montenegro, as stipulated by the provisions of the Budget Law, is obliged to apply the provisions of the same in part of the financial reporting for the needs of elaboration of consolidated financial statements at the state level.

5. It has been determined through the audit of accounting books of the Fund, including business books (General Ledger of the Fund and supporting books), property inventory and liabilities and financial reports, that the Fund is operating outside State Treasury System and that it is maintaining its business books and financial reports in accordance with the Law on Accounting and Auditing (“Official Gazette of RoM”, No.69/05 and “Official Gazette of MNE”, No.80/08) and accounting policies of the Fund.

Development Fund has maintained its business books according to the accounting system.

Accounting system is based on the entries made in General Ledger that represents documentation basis for development of Annual Financial Statements.
II DETERMINED FACTS

2.1. Financial reporting

Pursuant to the Rule Book on Drafting, Composing and Submitting Financial Reports on Budgets, Extra-budgetary funds and Local Governments (Official Gazette of the RoM « No. 21/09) the Fund is obliged to submit financial statements to the Ministry of Finance at latest by March 31st of the current year for the previous financial year, at following forms:

- Cash flow statements I – economic classification,
- Cash flow statement II – functional classification,
- Report on outstanding debts, and
- Report on consolidated public consumption.

The Fund is obliged, to prepare financial statements in frame of the International Accounting Standards for Public Sector, on cash and modified cash basis of reporting on cash flows, as stipulated by article 6 of the abovementioned Rule Book, as well as to prepare financial statements in accordance with the Book of Rules on Consistent Accounts’ Classification for the State Budget, Extra-Budgetary Funds and Municipal Budgets (“Official Gazette of RoM”, No.35/05, 37/05 and 81/05).

Since it has been determined with the audit that the Fund is operating outside State Treasury system and that it is maintaining business books and preparing financial reports based on the Law on Accounting and Auditing and accounting policies of the Fund, the audit of the financial statements of the Fund for 2008 has been conducted in the following manner:

1. The audit has been conducted in accordance with the Law on Accounting and Auditing, Fund policies and IAS, in part of the financial reporting
2. As far as regularity of operations is concerned, since these are public funds, legislation related to the public sector has been applied in part of planning and consumption.

Development Fund of Montenegro has delivered following financial statements: Income Statement, Balance Sheet, and Changes in net equity statement.

The audit of the financial statements examines whether financial statements:

- Have been prepared according to legal provisions,
- Reflect accurate and valid statements at the end of the year and during the year.

Up to date financial records are the most important sources of information based on which decisions are made that represent basis for elaboration of reliable financial statements.

Following irregularities have been determined with the auditing of accounting records in the audited entity:

- business books are not up to date
- individual business changes are recorded without valid documentation,
- documentation of the audited entity does not provide for a comprehensive insight into the nature of the business events since in some situations it is not comprising all necessary information to record business changes.
Determined irregularities in maintenance of business books and recording of business events are a consequence, amongst other, of inappropriate functioning of the internal control system.

2.1.1. Income statement

Development Fund of Montenegro has recorded 4,855,488€ profit in the Income Statement.

6. It has been determined through the audit that under the item number 2 – other business income the amount of 3,413,658€ has been recognized, which according to books of account, is related to the sale of company’s shares, income from sale of the stake, income from bank guarantees, income based on payment of insolvency estate of companies, income based on rental and extraordinary income.

7. Income from sale of the shares of the company, stake, or bank guarantees and income based on the payment of insolvency estate of companies was recorded by the Fund at the account 6211. According to the contents of the account for business entities, 6211 item is reserved for income from sales of stake and long-term securities, but they include surplus income from sale of stake or long-term securities compared to their book value.

8. In the said item the surplus income is not recorded, but overall income from sale of shares owned by the Fund, and this is why Income Balance is showing profit higher that truly made one.

2.1.1.1. Revenues

The Fund has realized 5,706,807.51€ revenues in 2008.

Structure of revenues in table and graphic

<table>
<thead>
<tr>
<th>Sources of financing</th>
<th>Realized revenues in 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from sale of shares in the company</td>
<td>736,584.44</td>
</tr>
<tr>
<td>Income from sale of stake</td>
<td>5,612.00</td>
</tr>
<tr>
<td>Income from payment of insolvent estate</td>
<td>2,596,297.22</td>
</tr>
<tr>
<td>Income from bank guarantees</td>
<td>30,000.00</td>
</tr>
<tr>
<td>Dividend</td>
<td>273,041.18</td>
</tr>
<tr>
<td>Extraordinary income</td>
<td>163.93</td>
</tr>
<tr>
<td>Rental income</td>
<td>18,000.00</td>
</tr>
<tr>
<td>Interest rate income</td>
<td>2,020,108.74</td>
</tr>
</tbody>
</table>
Income from sale of share in the company

The following has been determined with the audit:

Income from sale of shares in the company owned by the Fund has been recorded at the account 6211 amounting 753,584.44€.

Overview of sold shares in companies owned by the Fund, per company, amount and way of sale

<table>
<thead>
<tr>
<th>Name of company</th>
<th>Amount</th>
<th>Way of sale</th>
</tr>
</thead>
<tbody>
<tr>
<td>HK Agrokombinat “13 jul” DD “Kooperacija”</td>
<td>353,563.95</td>
<td>Stock exchange</td>
</tr>
<tr>
<td>“Ritamtrade” DD Podgorica</td>
<td>51,672.44</td>
<td>Stock exchange</td>
</tr>
<tr>
<td>“Sl Promet” AD Podgorica</td>
<td>274,666.72</td>
<td>Stock exchange</td>
</tr>
<tr>
<td>AD “Radvent” Niksic</td>
<td>7,194.20</td>
<td>Public tender</td>
</tr>
<tr>
<td>“Polimka” DD Berane</td>
<td>464.10</td>
<td>Public tender</td>
</tr>
<tr>
<td>“Jekon” DD Bijelo Polje</td>
<td>39,394.23</td>
<td>Auction</td>
</tr>
<tr>
<td>“Jekon” DD Bijelo Polje</td>
<td>36,628.80</td>
<td>Auction</td>
</tr>
<tr>
<td>Total:</td>
<td>763,584.44</td>
<td></td>
</tr>
</tbody>
</table>

• It has been determined with the audit that the nominal value of shares in the company from previous overview, owned by the Fund amounted 5,412,939.40€. The realized sale value of these shares in 2008 amounted 763,584.44€ so the capital loss of the Fund compared to nominal value amounts 4,549,354.96€.

Income from payment of insolvency estate

Income from payment of insolvency estate amounted 2,596,297.22€.

Dividend

Development Fund of Montenegro has realized 273,041.18€ income based on dividends paid.

Interest rate income

Interest rate income for short-term financial loan deposits and loans amounts 2,020,108.74€. Interest rate has been calculated by the Fund based on the short-term financial deposits and loans and it is presenting an interest rate list that serves as a document to record, i.e. register accounts receivable based on loans. Interest rates are calculated based on the accounting policies of the Fund for the period.

Income from interest rates based on short-term financial deposits is calculated at interest rate of 6% at annual level.
Income from interest rate based on the given loans is calculated based on the interest rate of 3.5-6% at annual level.

Payments for employees

The audit has shown, while auditing employees’ costs that make up for 35% of gross expenditures of the Fund, the following:
Legal rights and obligations of Fund’s employees, in area of personal income, are stipulated by the Rule Book on Salaries and Other Employees’ Fees (Decision of the MB Fund as of December 8th 2006). This Rule Book defines salaries, fees, awards, bonuses and other income of Fund’s employees.

The Rule Book determines coefficients according to the complexity of business in working posts and the lowest work price. Article 4 of the Rule Book stipulates that the lowest work price is determined by the Director in the procedure prescribed by article 4 of the Rule Book on the way to determine the lowest work price of employees in RoM, Financial Plan and the current liquidity of the Fund.

- The audit has shown that there is no written decision of the Director that would determine the lowest work price for 2008. The work price that has served as basis to form salaries for the first three months in 2008 has amounted 225.83€. The same increased by 10% in April and it amounts 252.04€ (the lowest work price is expressed in gross value).

Other operating costs

Other operating costs amount 553,175.26€ and are related to the current expenditures for operations (fuels, phone, electrical energy, etc.).

- The audit has shown that there are no irregularities in these items.

2.1.2. Balance sheet

2.1.2.1. Basic assets

Basic assets in the General Ledger of the Fund have been recorded in the amount of 1,466,231.87€.

- The audit of the balance item - property, plants and equipment has shown that the amount of 1,454,461€ is not correspondent to the amounts recorded in the General Ledger of the Fund (1,466,231.00€). The difference is related to the impairment.

2.1.2.2. Long-term financial deposits

Development Fund of Montenegro has classified financial assets in following categories: long-term financial deposits that are kept until maturity, long-term financial deposits held for sale, loans and receivables.

Long-term financial deposits held until maturity

Long-term financial deposits held until maturity relate to the long-term state bonds, bonds for needs of investment in reconstruction of roads and bonds for financing of infrastructural and environmental project - municipalities.

<table>
<thead>
<tr>
<th>Overview of long-term financial deposits held until maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long term state bonds</td>
</tr>
<tr>
<td>Bonds for needs of investment in reconstruction of roads</td>
</tr>
<tr>
<td>Bonds for financing of infrastructural and environmental projects- municipalities</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>
• It has been determined with the audit that there are following irregularities with charging off of the long-term bonds issued by the Ministry of Finance:

- the opening balance of the long-term state bonds at the credit side of the account – 17200 the amount of 206,300.40€ has been recorded. This amount is made of sale of shares in previous period for bonds, in companies: “Riviera” AD Kotor (187,471.98€), “Nibus” AD Niksic” (12,854.00€), “Eko-mlijeko” Bijelo Polje (5,969.41€), “Mesopromet” AD Podgorica (5.00€) and “Sinjajevina” UTP AD Mojkovac (0.01€). With the control of the journal entry in 2006, the state auditor has determined that only the amount of 5,969.41€ has remained open at the bond accounts, while other values have been closed. Closed transactions are not transferred to other periods, while the open transaction of 5,969.41€ should have been restated in 2008. Journal entry of 200,325.98€ in the opening balance cannot be accepted as reliable.

- according to CDA report submitted at the Request of SAI, bonds F001 have been replaced with trade symbols F002, and on July 31st, 2008 they are amounting 7,206,466.00€, owned by the Fund. The Fund has made charge off of 7,443,545.19€, or 237,079.19€ more than owned, which decreases capital for this amount at account 3110.

    Bonds issued by municipalities have been recognized in assets of the Balance Sheet in the amount of 10,204,323.21€.

    The audit has shows that in period from January 1, 2006 to December 31, 2008, the Fund has acquired long-term bonds that are held for maturity from municipalities as issuers with nominal value of 12,696,130.00€.

**Long-term financial deposits held for sale**

Long-term financial deposits held for sale represent shares of companies that are ranked at the stock exchange markets in Montenegro and that belong to the Fund in accordance with the Law on Property and Management Transformations (“Official Gazette of RoM”, No.2/92, 17/92, 27/94, 30/94 and 23/96). The procedure of the changes of ownership structure is conducted in accordance with the Privatization Plan adopted by the Government of Montenegro. The value of long-term financial deposits held for sale in the General Ledger amounts 41,417,251.64€ as was recorded in the Balance Sheet. The market fair value of the long-term financial deposits held for sale, the percentage of Fund in the gross capital of the limited liability company and the total number of shares owned by the Fund as well as the percentage of the decreased nominal value of shares have been recorded in the following overview:
The audit of the balance item Long-term financial deposits held for sale has determined the following:

Structure of the account 1732 – long-term financial deposits held for sale is made of: shares and their value decreased with restatements in opening balance and fair values (decreased or increased) at the end of the year.

Restated value at the opening balance in 2008 in books of the Fund is made of determined fair values in the previous period

- The audit has shown that in the previous records made by the Fund there was a mistake with recording of shares which have not been registered with Central Deposit Agency (CDA). This way of recording of shares is opposite to article 5 of the Law on Securities (“Official Gazette of RoM”, No.59/00,10/01, 43/05 and 28/06).

The said error has a significant effect on financial statements from the previous period (since it was recorded in the opening balance for 2007), so these statements may not be considered reliable on the day of their disclosure (IAS 8.32).

The audit has shown that in the procedure to determine fair value of long-term financial deposits (recorded by their fair value) some methods and steps to estimate fair value have not been applied, defined by IAS39 and Rule Book on Accounting and Accounting Policies of the Fund, which has as a consequence unrealistic income or losses compared to the fair value.

As an example: Pursuant to article 25 of the Fund’s Statute, and in accordance with article 6 item 1 of the Law on Accounting and Auditing (“Official Gazette of RoM”, No. 69/05 and “Official Gazette of MNE”, No.80/08) the Director of the Fund has reached the following Solution No. 0102-1653/1 as of
December 31st, 2008 appointing Board for Determination of the Fair value of the Capital for 2008. For each business year a new Solution about the appointment of the board to determine fair value is made.

- The audit has shown that except for irregularities while determining fair value of shares that are not listed at stock exchange market, there are some irregularities and inconsistencies in the application of the same method when determining fair value for shares that are listed at stock exchange. The information about various circumstances and activities in the market have not been delivered to the State Auditor, as well as when it was necessary to apply specific techniques for estimates.

  The audit of the books of account has shown that the total value of shares of companies owned by the Fund has decreased by 58.99% compared to their nominal value.

  The value of shares per Privatization Plan, which are not listed at the market, compared to the ones listed (including companies in bankruptcy) have 79.56% in total nominal value of shares.

  With the reduction to fair value, the shares which are not listed at the market compared to the nominal value have decreased by 63.67%.

**Loans**

The audit has shown, based on the accounting records presented by the Fund, that the state of the long-term loans on December 31st, 2008, totaled 30,679,430.94€, which is accordant to the amount recoded in the Balance Sheet.

Based on the presented accounting records it has been determined that the part of the long-term loans that mature in a year since the day of the annual balance, has been recognized as the long-term financial deposit and not as the loan that matures within a year from the day of the balance sheet, as the short-term loan in accordance with Chart of Accounts and the Contents of Accounts publicized by the Accounting and Auditing Institute of Montenegro and it discloses the structure of funds and liabilities, grouping them per maturity, counted from the day of the balance sheet until the determined maturity date, in accordance with IAS30.

Other long-term loans represent borrowing – short-term loans provided to KAP, Jadransko brodogradiliste AD Bijela and Jugooceania Kotor, that are matured but that have not been charged yet. Accounts receivable from Jadransko brodogradiliste have been reprogrammed and secured, so it is expected they will be invoiced in the year to come. Accounts receivable from Jugooceania have been restated.

Accounts receivable from KAP (short-term borrowings from 1998) amounting 2,821,340.09€, have not been restated, i.e. the book value has not been reduced to fair value, which is not accordant to IAS39 Financial Instruments – recognition and value as well as with the accounting policies of the Fund.

The Fund is providing support to small and medium-sized enterprises as the bearers of economic growth.
Documents defining the way, conditions and procedures to approve loans to small and medium-sized enterprises are Business Policy of the Development Fund for 2008 and the Program of general conditions for financial support of the Development Fund for 2008.

Development Fund during 2008 has approved 61 loans to small and medium sized enterprises (SME) valued 8,385,904.00€, out of which 7,192,195.87€ has been realized until the moment the audit was conducted.

With the audit, which included 37 samples of approved loans to SME or 6,822,704.00€ value of approved loans, of the way and procedure of approving loans to small and medium sized enterprises, it has been shown that there are following irregularities:

The Fund is considering to provide a loan after it received Decision of the Credit Board of the Bank on Approval of Loans (according to the General conditions of the Fund), investment projects, decisions about the establishment of the company, balance for last two years and evidence about the permanently employed workers. After that, Expert service of the Fund determines whether Investment Project is made in accordance with the stipulated methodology and prepares a Decision about the Approval of the Loan to the Commercial Bank for a concrete project, i.e. company, and an Explanation that contains the most important information on investment project and proposal of the experts service to reach a decision to finance investment projects. Based on that MB of the Fund reaches a Decision on the Loan Approval.

- The audit has shown that there is no documentation that relates to the estimate of the investment project by the Expert service of the Fund although the basic role of the Investment project is to serve as basis for reaching adequate decisions of the creditor as was said in the Business Policy of the Fund.
- It is necessary that the Expert Service of the Fund while reaching Decision on the Loan Approval for the certain investment project, estimates the same and delivers the adequate document to the MB of the Fund with other material to serve as basis for reaching the decision of the Creditor
- The audit has shown that the Fund is not making control of the fulfillment of obligations that relates to the employment of people from the Employment Agency list. The overview of the Fund’s documents in several implemented projects has shown that in none of the cases it has not been determined that the user of the loans has fulfilled the obligation to employ people registered in the Employment Agency.

Based on presented documents the State Auditor has recognized two types of control made by the Expert Service of the Fund, when approving loans to SME: control before and after the realization of loans.

The result of the both types of control is an “Official Record”. In 15 out of 37 or 40.54% cases included in loans for SME, the Statement is made on the “control of the state presented in the investment projects and invoices delivered to the Development Fund”, i.e. to determine the existing state before realization of the investment project. In 6 out of 15 cases the state auditor has determined that the control of the existing state has been made after the Decision of the MB of the Fund to approve loans. In 11 or 32.35% cases the Official Record is made on the “control of the data presented in investment project and invoices delivered to the Development Fund”, after the realization of loans, which can be considered a control of the appropriate usage of the funds.
Official record related to the monitoring of realization of loans state for what purpose funds have been used, but there is no clear statement about whether or not the funds have been used appropriately. In 9 or 24.32% of sampled loans there was no control conducted by Expert service of the Fund before or after the realization of the loan.

The Fund itself is not controlling significantly the purposeful usage of loans and thus it is not respecting the obligation from the Contract on Loan and it is not ensuring that loans are used in accordance with the Program of General conditions for financial support, as well as with the accepted investment project.

- It is necessary that the Fund takes necessary steps to monitor the appropriate usage of loans, as well as to monitor whether beneficiary of the loans has fulfilled contracting obligations and employed a specific number of people from the Employment Agency.
- The Fund would need to record projects that have become operable, the number of employees, as well as analyses of the effects on development of economy as a whole, while showing results of the credit investment activities, which is one of the basic tasks and functions of the Fund.

2.1.2.3. Capital

Liabilities of the Balance Sheet record the subscribed capital amounting 93,502,953.00€.

- The audit of this balance item has not provided for the correct determination of the true value of the subscribed capital due to the incorrect statement in account 3110 – changes in equity as well as in the way book entries of the share capital have been made in 2008.

Sale of shares in 2008 has not been recorded through class 3 which represents discrepancies from the Rule book on Accounting and Accounting Policies of the Fund. The sale of shares has been recorded through the income account 6211.

Sale of share capital in 2008 in total amount of 2,715,590.55€ has not been recorded in liabilities of the Balance Sheet as subscribed capital.

2.1.2.4. Liabilities

Long-term liabilities of the Balance Sheet have been recorded in total amount of 867,226€ and are related to the liabilities to the Compensation Fund. In accordance with the Law on return of the property rights and compensation (“Official Gazette of RoM”, No.21/04) the Fund is obliged, with the aim to provide funds for the Compensation Fund, to allocate resources amounting 10% of sold shares.

Short term liabilities from operations have been recognized in the amount of 5,751.00€.

2.1.3 Cash Flow Statements

Cash flow statements of the Fund is not comparing data for the previous year (2007). The audit of the Cash Flow statements for 2007 has shown that the cash and cash equivalents at the end of the period have not been transferred in the exact amount.
The discrepancies appear with the state of time deposits in banks amounting 25,446,931.00€.

This way of reporting is not in accordance with the IAS8 – Accounting policies, changes in accounting policies and errors.

We must note here that there were no changes in accounting policies in 2008.

- It has been determined through the audit that the Fund has not classified in the appropriate way cash flows according to groups, within the Cash Flow statements, so the same is not providing for the reliable evidence of cash flows. As an example:
  - inflows from paid dividends is classified in the group cash flows from operating activities and according to auditor’s opinion the income from paid dividends belongs to the group of cash flow from investment activities,
  - income from repayment of housing loans has been classified in the group of operating activities, and according to auditor’s opinion it should be classified in the investment activities,
  - income from repayment of long-term loans has been classified based on financing activities, while according to auditor’s’ opinion the same should belong to the cash flows from investment activities,
  - outflow from the provided housing loans is classified in cash flow for investment activities and the same belongs to the cash flows from financing activities.

2.1.3.1. Cash and cash equivalents

The cash on December 31st amounted 17,607,964€.

The audit has shown that the deposits have been confirmed by the banks.

Final remarks:

The above presented financial statements of the Development Fund of Montenegro for 2008 have been adopted by the MB of the Fund at the session held on March 11th, 2009. The Management Board of the Fund has reached a decision to adopt Final Report for 2008 and the Decision about the Adoption of the Independent Auditors Report on the estimate of the financial statements of the Development Fund for 2008.

During the audit of the financial statements of the Fund, conducted by state auditors of SAI, based on the above said facts, the competent Board of SAI has made the reasonable assurance that:

- annual financial statements of the Development Fund of Montenegro for 2008, do not reliably show the state in all aspects of the financial reports and the operation results of the Fund on December 31st 2008, and it expressed reserve on the accuracy and reliability of the same.
2.2. Public procurement

The Fund has made a plan of public procurements for 2008, and the same amount 231,300.00€, while the same has been realized in the amount of 45,924.64€.

- It has been determined through the audit, with the comparison of the plans and the executed public procurements, that the planned and implemented funds have not been harmonized.

The audit of the public procurement has shown following discrepancies:

- The value of the public procurements of the Fund made with the direct agreements has amounted 43.19% of the gross funds for public procurements. According to article 78 of the Law on Public Procurements (“Official Gazette of RoM”, No.46/06) the value of these procurements should not supersede 10% value of the annual budget.

2.3. Court settlements

Development Fund on December 31st 2008 has lead court settlements in which it appears as prosecutor and sued party.

The expert service of the Fund plays an active role in court proceedings (74 proceedings).

The most significant court settlement lead by the Fund as prosecutor is against AD “Kombinat Aluminijuma” Podgorica to return currency loans.

III FINAL FINDINGS, ASSESSMENTS AND REMARKS

Based on determined facts and Statement of Development Fund of Montenegro (number 01-1002/1 as of July 15th, 2009) on the report of SAI (number 40113-02-33/15), and pursuant to article 48 of the Rule Book of the State Audit Institution, the competent Board comprised of MA Branislav Radulović (Member of the Council – manager of the Board) and Mr. Dragiša Pešić (Member of the Council – member of the Board), at the session held on July 22nd, 2009 has adopted the FINAL REPORT on the audit of annual financial statements of the Development Fund of Montenegro for 2008 with following final assessments, findings and recommendations:

3. The status and the organization of the Fund have not been fully complied with the valid normative framework that defines its work and organization, above all because there are inconsistencies between the Law on the Development Fund of Montenegro and Budget Law in defining the same.

- It is necessary to question the existing way of organization of the Fund, from the aspect of the functioning of public financing system in Montenegro and more efficient and transparent disposal of public funds and state property.

- It is necessary that the competent ministry, in accordance with its authorities, takes necessary steps to eliminate legal deficiencies as far as status of the Fund is concerned and to process adequate legal solutions with the aim to position the Fund better in the system
4. The Fund in the controlled period, has been operating outside the State treasury system, and it has been maintaining accounting records and financial reports based on the Law on Accounting and Auditing, not respecting the provisions of the Budget Law, where it is treated as the state fund.

13. The Fund is obliged to harmonize its organization and general documents with the provisions of the Budget Law, according to article 36 of the same.

14. It is obliged to include its accounts in the Consolidated Treasury account, and to close bank accounts in commercial banks and transfer funds from commercial bank account to the consolidated treasury account, in accordance with article 37 of the Budget Law.

5. According to the Budget Law of Montenegro for 2008, the Fund is obliged to deliver to the ministry monthly plans for budgetary funds expenditure and use privatization income and deposit funds with approval of the Government, on proposal of the Ministry of Finance.

- The Fund is obliged to fulfill legally prescribed obligations in accordance with article 30 and 34 of the Budget Law of Montenegro, with the aim to integrate all information making an integral part of the Budget Account of Montenegro for 2008.

6. Business books of the Fund have not been updated on regular basis, since individual business changes (while recording changes in equity, determining fair value, lower price of work), are recoded without adequate documents, which does not provide for an insight into the nature of the business event.

- With the aim to provide for reliability of financial statements of the Fund it is necessary to establish up to date bookkeeping and to maintain documents on all account changes.

7. During the control period, the Fund has sold shares significantly below nominal value, and it has not conducted estimate of the fair value before that (for shares sold thorough stock exchange and those that are sold on tender or auction), and this is why capital loss has appeared.

- It is necessary that competent state authority sets the obligation to the bearers of the state capital that in case there is significant discrepancy between the sale value of shares compared to the nominal value, they should determine fair value before sale, with determined rules and procedures.

8. There is no adequate system on Internal Control within the Fund.

- It is necessary to establish adequate system of internal control with the aim to provide efficient operations, which includes acting upon implemented management policies, prevention and disclosure of errors, accuracy and reliably of accounting records and timely development of reliable and quality accounting-financial information.
9. The Fund does not possess the adequate documents related to the estimate of investment project for the delivery of loans through commercial banks, although the basic function of the investment project is to serve as basis to make adequate decision of the creditors, as is determined with the business policies of the Fund.

- It is necessary that the Fund, while making decisions on the approval of loans for specific investment project should estimate the same and deliver adequate documents to the Management Board of the Fund, that should serve as basis for decisions making process of the Creditor.

10. The Fund is not providing for the control of the fulfillment of the contracted obligations that are related to the employment of persons from the Employment Agency, and the control of the purposeful usage of the loans. Thus the Fund is not fulfilling its obligation from the loan contract and it is not providing for the appropriate spending of the funds in accordance with the Program of general conditions for financial support, as well as accepted investment projects.

- It is necessary that the Fund conducts control of the purposeful usage of the loans as well as to control whether user of the loan has fulfilled its obligations and employed specific number of people from the registry of the Employment Agency.
- The Fund would need to record projects that have become operable, the number of employees, as well as analyze the effects on development of the economy as a whole, while showing results of the credit investment activities, which is one of the basic tasks and functions of the Fund.
SUBMISSION FROM THE AUDIT REPORT ON ANNUAL FINANCIAL STATEMENTS OF THE MINISTRY OF TOURISM AND ENVIRONMENTAL PROTECTION FOR 2008

Type of audit: General audit

Audited entity: Ministry of Tourism and Environmental Protection

Subject of audit: Annual Financial Statements for the year 2008

Audit duration: 90 working days

Auditing team: MA Branislav Radulović and Miroslav Ivanišević
I GENERAL INFORMATION ON AUDITED ENTITY

-- Audited entity is an authority of the state administration – the Ministry.
- Manager of the Ministry is Minister Predrag Nenezic.
- Representative office of the Ministry of Tourism and Environmental Protection is in Podgorica, Rimski trg 46.

• Internal organization

Internal organizational units of the Ministry are:

- Minister’s Office (8)
- Tourism Sector (1)
  - Economic Policy and Market (2)
  - Tourism Development Sector (4)
- Legal and Inspection Affairs Sector (1)
  - Normative Legal Affairs sector (7)
  - Inspectorate Sector (25)
  - Administrative and Felony Procedure Sector (4)
- Environmental Protection Sector
  - Department for protection of air and ionizing radiation (5)
  - Department for control of industrial pollutions, waste management and waste waters (7)
  - Department for environmental protection and estimate of influence (6)
  - Department for Integration and strategic affairs (6)
- Sector for general, legal and financial affairs (11)
- Sector for European Integrations (2).

With Rule Book on Internal Organization and Systematization of Employees’ Posts in the Ministry of Tourism and Environmental Protection, adopted pursuant to the Rule Book on Organization and Way of Work of State Administration (“Official Gazette of RoM”, No.54/04, 78/04, 6/05, 61/05, 6/06, 32/06, 42/06, 56/06, 60/06 and 72/06), 90 civil servants and state employees have been employed.

It has been determined with the audit that the number of employed people in 2008 amounted 109. Out of this number 13 are apprentices, while 85 people are employed for indefinite period of time, and 11 for definite period of time.

While appointing people for separate working posts there were no irregularities determined. The audit has shown that the employees fulfill all criteria predicted for specific working post as far as level of education, years of services and state exams for work in state administration bodies are concerned.
II. DETERMINED FACTS

Ministry of Tourism and Environmental Protection has delivered Annual financial statements for 2008 in forms 3, and 4, as follows:

- Cash Flow Statement III and
- Outstanding Debts reports.

According to previously mentioned Rule Book, the audited entity was obliged to submit Report on the way unspent funds are used, since according to the control of time deposit and the state of these deposits on December 31st, 2008, there as 23,417.30€ at the accounts.

The analyses of the delivered Report has shown that the information provided in the Cash Flow Statements III related to the executions, is accordant with the information provided by the State Treasury, as well as with the Information contained within the General Ledger of the audited entity, related to the Budget income and budgetary expenditures.

With comparison of data provided within the Cash Flow Statements III, related to the plan, some inconsistencies have been determined. The Budget Law of Montenegro for 2008 (“Official Gazette of MNE”, No. 17/07 and 46/08) provides funds amounting 8,914,678.69€ for the Ministry of Tourism and Environmental Protection, while the planned funds in the Statement amount 9,026,678.69€. Further analysis has shown that the difference relates to the Program “Environmental Protection” at the item contracted services.

Accounting records of the audited entity show that there are irregularities related to the following:

- Business books are not completely updated
- Some business changes have been registered without accounting documents,

  The Book of Rules Consistent Accounts’ Classification for the State Budget, Extra-Budgetary Funds and Municipal Budgets has not been abided (expenditures are recorded in the items they do not belong to).

  The said irregularities in maintaining business books and recording of business events are a consequence, amongst other, of inadequate functioning of the internal control system.

Ministry of Tourism and Environmental Protection during 2008 has had additional financing from current budget reserves amounting 835,258.98€.

Ministry of Tourism and Environmental Protection has shown the state of the outstanding debts amounting 268,186.49€.

2.1. Revenues

The audit has shown that the Ministry has been financed from the general budget revenues during 2008, appropriated revenues and donations, and it has made income of 7,157,301.00€.
### Appropriated revenues

The audit has shown that the appropriated revenues in the State Budget for 2008 are:

- environmental fees for investment (150,175.36€)
- environmental fees for transport of oil products paid by polluter (318,564.45€) and
- environmental fees for outflow of polluting material into the air (107,714.17€).

They have been realized in the amount of 576,454.45€ out of which Ministry has planned 500,000.00€ for current consumption.

### Donations

The audit has shown that the Ministry has spent 905,494.59€ from donations in 2008. These funds have been paid for the Program “Environmental Protection”.

### 2.2. Expenditures

The Ministry is recoding expenditures according to economic classification on cash basis. The Ministry has realized plan and execution of the expenditures through program budget for 2008. Program budget of the Ministry included some basic programs, as follows:

- Touristic activity Program
- Surveillance and Monitoring of tourism potentials
- Administration Program and
- Environmental Protection Program,

The Budget Law of Montenegro for 2008 (“Official Gazette of MNE”, No. 17/07 and 46/08) for the Ministry of Tourism and Environmental Protection predicted funds amounting 8,914,678.69€.

The Ministry has realized 7,157,301.00€ expenditures in 2008, which is 19.71% less than planned or in nominal value 1,757,377.69€.

Transferred funds during 2008 have amounted 230,000.00€.
Gross salaries and fees of employees

With the audit of this item of expenditure in the audited entity the following facts have been determined:

Budget Law for 2008 predicts 985,920,038.02€ for this item, and 931,107.66€ have been used. The realization based on the plan amounted 94.44%.

The audit has shown that the calculations of the salaries of the Ministry are made by the Ministry of Finance based on the payroll list that the Ministry delivered to the State Treasury. The insight into the list has shown that employees have been divided into payment groups based on which their coefficient was determined in accordance with the Law on Salaries of Civil Servants and State Employees ("official gazette of MNE", NO. 27/04 and 17/07).

Commissions and working groups

The audit of the expenditures of the Ministry related to the Other personal income has showed that 107,840.00€ has been paid to employees for participation in various commissions and working groups, from item 4139 – contacted services.

The formed commissions and working groups are mainly made of employees of the Ministry and on this basis they have been salaried with the total amount of 79,240.00€. The remaining part of 28,600.00€ has been paid based on the fees for the work in commissions and working groups for employees of other state bodies. The employees in the Ministry based on participation in nine commissions that have been made of one employee only, have received monthly fees during the whole year in amounts ranging from 50 to 420.00€.

Employees have not submitted written reports about the implementation of these projects, but they have made these reports in verbal forms. The paid fees have not been taxed, although they belong to the group of personal income and the same should be recorded in the OPD1 forms as part of the taxable income, which is not in accordance with the Law on Income Tax for Physical Personas ("Official Gazette of RoM", 65/01...04/07) and Instruction on the way of calculation and payment of taxes and contribution for personal income based on employment service ("Official Gazette of RoM", No. 81/06).
2.2.1. Tourism activity program

For the implementation of the program the Budget Law for 2008 predicts 2,222,090.25€.

The Ministry in 2008 has made expenditures amounting 2,515,890.72€ during 2008 for his program.

The audit has been conducted on 95.79% or in nominal value 2,338,548.67€ expenditures made in the program tourism activity (except for gross salaries and other personal income since these are audited at the level of the Ministry).

Expenditure for material

With the control of the expenditure stated in item 4131 – Expenditures of the material is has been determined that the plan for this item amounted 4,000.00€, while 3,986.18€ has been used so that the realized percentage amounts 99.65%.

There were no irregularities in this item.

Expenditure for business trips

The audit of this item has shown following:

This item was allocated 6,000.00€ and the same has been realized in the exact amount. The audit has showed that the costs from business trips have been paid from other items such as item 4139 – contracted services amounting 68,776.29€ and from item 4171 – subsidies amounting 34,012.40€. It has been determined from the aforesaid that the expenditures for business trips amount 108,788.69€.

The accounting documentation (trip orders, bills for transport costs, accommodation, food, daily allowances) have shown following irregularities:

a) According to the statement made by the responsible accountant, the Minister informs employees in verbal about the business trips, and after that he/she comes to the accountant to open trip order. The employee that goes on the business trip selects facilities for accommodation by himself and provides reservation, which is paid after the invoice is delivered.

b) Late justification of trip order (the trip order opened on March 26 2008 for business trip to Split, and the same has been justified in June) which is opposed to the article 35 item 1 of the Rule Book on Fees and other Remunerations of Civil Servants and State Employees ("Official Gazette of RoM", No. 24/05, 42/05 and 70/06).

c) Trip orders are not justified (for example trip order as of November 8th, 2008 for business trip to London with advance payments of EUR1,5000, trip order as of October 15th, 2008 for business trip to China with advanced payment of EUR5,062.00)

d) The reports after the business trips are not submitted (out of 12 controlled trip orders for business trips abroad only 3 reports have been made)
e) The expenditure amounting 16,000.00€ on the account of plane tickets is not documented with the purpose of the trip. Documentation, that has been delivered to the State authorities, consists of the bills of Montenegro Airlines (no. 2008/03/SO2/249 as of September 10\textsuperscript{th}, 2008) and the Contract (number 1309/08 as of September 11\textsuperscript{th}, 2008) made by the Ministry of Tourism and Environmental Protection, Ministry of Culture, Sports and Media and Montenegro Airlines. According to verbal explanations of the audited entity, the funds have been used to participate in Biennale of Architecture in Venice.

**Representation costs**

Control of the expenditure shown in item 4133 - representation costs, has shown that the plan for this item predicted 2,000.00€, and 1,999.08€ has been spent.

The audit of the sample at item 4139 – contractual services has determined that restaurant services (for representation) amounting 3,972.62€ have been paid from this item, and the representation costs have increased for this amount.

**Energy costs**

Control of the costs recorded in item 4134 – Energy costs has determined that the plan for this item amounts 3,500.00€ and that the same amount has been spent.

It has been determined that the said amount does not include costs for fuel, but the payment of the Agreement for the project (no.7942-00/2006) with NGO “Austrian Montenegrin partnership for Bjelasica and Komove”.

**Telephone services costs**

Control of the expenditures in this items 4135 – costs for telephony services has determined that the plan for this item predicts funds amounting 2,300.00€, and that the same has been spent.

There were no irregularities in this item.

**Contracting services**

The audit was performed on 97.28% of the item or in nominal value 2,132,850.21€.

The examination of accounting documents (invoices, contracts) has shown following irregularities:

10) Expenditures that do not belong to the item contracting services have been recorded (business trips expenditures, representation costs, fees for unused annual leave, fees for work in commissions and working groups),
11) The public procurement procedure is not conducted with the contract made with TV Vijesti (contracted amount EUR30,000), for broadcasting of TV commercials and campaign of the Ministry, with RTCG (value of the Contracts EUR98,500.00). The Decision on the Contract has been made on November 25th 2008 while the open call at website of the Directorate for Public Procurement has been publicized on December 10th 2008, and in Daily Pobjeda on December 11th, 2008.

12) Payment of expenditures that relate to the obligations from 2007 (the sample has included the amount of 76,966€, and it is related to payment made to “MAPA” and RTCG), but the Ministry according to report on Outstanding Debts has not had outstanding debts for 2007, is not in accordance with article 31 item 4 and article 36 of the Budget Law as well as with items 33-37 of the Instructions on State Treasury (“Official Gazette of MNE”, No.64/01).

13) Individual expenditures are recorded without appropriate documents (examples: requests for payment 40131934, request 40003602, request No. 40158652, 40168736, 40127757, 40127753 and 40158647, payment made without contracts).

Subsidies for production and services

The control of expenditures recorded in item 4171 – Subsidies for production and services, has shown that the plan for this item has predicted 230,000.00€ and that the same amount has been used.

The accounting records (invoices, contracts) have shown following irregularities:

- The Ministry has made a Decision on June 5th, 2008 to allocate funds for projects to NGOs, based on the Open call as of March 20th, 2008. The Decision was made to allocate funds for 89 NGOs with total costs of 125,915.00€. NGOs were obliged to, under the individually made contracts with the Ministry, deliver a report to the Ministry about the way funds have been used to implement said projects. The audit of the same has shown that out of 62 NGOs, only 24 have sent the report or in nominal amount out of 97,115.00€, only 40,615.00€ has been justified.
- The expenditure has been recorded that does not belong to item 4171 – subsidies for production and services (expenditures for airline tickets – hotel accommodation, car services and service contracts).
- Expenditures have been recorded (donations, sponsorships, and financial support to organizations, associations, centers that are related to affirmation of tourism and environmental protection) that represent transfers that are not planned at the adequate item.

2.2.2 Surveillance and Monitoring of tourism potential

For the implementation of this program Budget Law for 2008 has allocated amount of 669,206.76€. The Ministry has used 627,845.20€ in this period, 6.18% less than planned or in nominal value 41,361.56€ less.
The audit of the surveillance and monitoring program has included 85.11% or in nominal value 250,319.75€ (except for gross salaries of employees and other personal income since they are audited at the level of the Ministry).

**Expenditures for material**

The audit of the accounting records and documents has shows that expenditures which do not belong to this type of expenditures are recognized in this item.

The control of this item based on samples tested has determined the following facts: sample has been tested amounting 11,297.60€ or 80.70% of the total expenditure in this item. The test has shown that 27.15% or 3,068.12€ do not belong to this item. Inappropriately used funds relate to: recording service under payment orders number: 4000999134 and 400099131 amounting 526.50€, printing services under payment order 40156312 amounting 661.34€, car services under payment order 400164342 amounting 312.00€, copying services under request: 40143547, 40125071 and 40115201 amounting 1,151.28€, advertisement for open call under payment order 40125087 amounting 274.00€, translation service under payment order 40125089 amounting 143.00€.

This way of recording of expenditures is not accordant with the Book of Rules on Consistent Accounts’ Classification for the State Budget, Extra-Budgetary Funds and Municipal Budgets (“Official Gazette of RoM”, No. 35/06, 37/05, and 81/05).

**Business trips expenditures**

The audit has shown that the business trips expenditures have been paid from other items, item 41349 – contracted services amounting 53,753.21 and from item 4171 – subsidies amounting 9,688.62. It is determined that business trips have been made in significantly higher amount that planned for this item.

**Expenditure for energy**

Control of the expenditure in item 4134 – expenditures for energy has determined that the plan for this item predicts amount of 18,000.00€ and that the same amount has been spent.

The overview of accounting records has shown that the sampled expenditures for fuel amount only 2,732.75€ and that 18.49% of the sample has been used purposefully.

**Postal services costs**

Control of the item 4136 on sample basis has determined the following facts: sample has been tested amounting 876.77€ or 79.71% of the total expenditure in this item.

Telephony services have been recorded in this item amounting 365.82€ which means that 41.72% of the item has been used inappropriately.
**Contracted services**

By auditing expenditures recognized in item 4139 – Contracted services, it has been determined that the plan for this item amounted EUR180,000.00, while 164,000.00 or 91.11% of the earmarked funds has been used, representing 8.89% less than planned.

By examining accounting records and documentation it has been determined that expenditures not belonging to this type of costs have been recorded within this item.

By testing samples at this item, the following has been determined: the tested sample amounted 139,724.46 or 85.20% of the total costs recorded in this item. The test has shown that 55.31% or 77,286.93 of tested samples do not belong to this type of expenditure. Except for recorded fees paid under Service Contract for Physical Persons, who charge eco-fee at country borders with issuance of sticker (Vignette), and who belong to the Environmental Protection Program, expenditures that do not belong to this item according to Rule Book on Consistent Accounts’ Classification, have been recorded within this item. The non-appropriated funds, included by the sampling, relate to:

- **Expenditures for business trips to country and abroad amounting 53,753.21.** The examination of the accounting records has shown that the expenditure amounting 5,411.38 is related to the participation at World Congress on Environmental Protection held in Barcelona (total costs amount 12,100.00, but the difference of 6,688.62 has been recorded at account 4171). Under the Conclusion passed by the Government, No. 03-9783 as of October 9th, 2008, platform for participation of the Delegation of the Government of MNE at World Congress on Environmental Protection in Barcelona, from October 4-15, 2008 has been determined. According to Government’s Conclusion, 6 members of the Ministry have been determined, while the audit shown that there were 14 people in the Congress. Eight members of delegation are not employed in the Ministry, but they represent following institutions: National parks, National Tourism Organization, Bureau for Environmental Protection, Institute for Sea Biology, NGO “Green Home” and two journalists.
- **Catering services amount 5,797.14**, while the purpose of payment of 4,261.14 through the payment request 40089674, could not have been determined.
- **Financial support to employees for educational purposes amounted EUR8,980.00**
- **Fees to employees for projects amount 3,345.00 € (for translations services without service contract, paid to the same physical person).**

**Subsidies for production and provision of services**

The audit of the item - subsidies for production and provision of services - has been completely conducted.

The examination of the accounting records (invoices, contracts) has shown following deficiencies:

Pursuant to Rule Book on Consistent Accounts’ Classification, account 4171 is used to record contracting commitments and payments related to expenditures with the aim to develop certain activities.
The overview of the accounting records and documentation has shown that certain expenses that do not belong to this item are entered into this item, such as:

- With requests number: 40112729 and 40115467, bills for concert tickets have been paid amounting 11,875.00€;
- With requests number: 40116261 and 40117466 extraordinary advances for business trips to abroad have been raised, totaling 9,688.62€.
- With Request number 40114431 under the Sponsorship Agreement, 3,000€ has been paid to a sport club;
- With request number 40116318, 680.00€ has been paid under the Service Contract.

2.2.3. Administration Program

The Budget Law for 2008 predicts the amount of 724,142.42€ for the implementation of this Program. The Ministry has used 702,581.76€ to implement the program in 2008, which is 2.98% or in nominal value 21,560.66€ less than planned.

Business trips expenditures

The audit findings for the item - expenditures for business trips - show the following:

The amount of 25,000.00€ has been planned for this type of expenditure, while 24,999.00€ has been implemented. It has been determined through the audit that expenses for business trips have been appropriated from other item – 4139 - Contracted services totaling 32,037.89€ of the sampled funds. This proved that the expenditures for business trips have been made in far bigger amount than planned for this item, which is opposite to the Budget Law for 2008 and the Rule Book on Consistent Accounts’ Classification.

Representation costs

The control of the expenditures recorded in item 4133 - representation costs, has shown that the plan for this item amounted 5,000.00€, while 4,999.80€ has been used.

By auditing of samples in item 4139 – contracted services it has been determined that catering services amounting 12,943.26€ have been paid from this item, and for that amount the expenditure for representation has increased and it exceeds plan by 258.86%.

Contracted services

It has been determined with the control of expenditures at item 4139 – Contracted services that the amount of 235,000.00€ has been planned for this account, while 234,997.18€ has been used.

By examining accounting records and documentation it has been determined that expenditures that do not belong to this type of costs are recorded in this item.

The control of this item of expenses based on the sample, has provided the following facts: sample amounting 150,285.57€ or 63.95% of the total costs at this item has been tested. The test has proven that 41.60% or 62,503.94€ of these expenditures are not correctly represented in this item.
It has been determined through the audit that non-earmarked funds are mainly used for business trip costs – 32,037.89€ and catering services – 12,943.26, for computer equipment, installments for vehicles, concert tickets, fees for work, installments for loans for scooters, sponsorships and telephony services.

It has been determined through the audit that for the needs of the Administration Program 47,582.65€ of cash has been raised. The cash has been mainly used for business trip expenditures. While submitting request for extraordinary advances to the Ministry of Finance – State Treasury, the explanation is delivered to the Ministry stating for which purposes the cash will be used. It has been determined that in the most number of cases the cash has been raised from item 4139 – contracted services, with the explanation it would be used for business trips.

**Rental of facilities**

The examination of the accounting records and documentation has shown that this balance item recognizes costs which do not belong to this type of expenditure, in the amount of 9,591.24€ of the sampled funds. The samples in this item have included amount of 34,763.90€ or 86.99%. Non-earmarked spending of funds from this item totals 27.58% of sampled funds and it relates to the expenditures for office material, installments for cars, production and advertisement costs, car tires, payments under service contracts.

### 2.2.4. Environmental protection program

Funds amounting 5,299,239.26€ have been earmarked for the implementation of this Program in the Budget Law for 2008. The Ministry has used 3,310,983.32€ for this program in 2008, which is 37.52€ less or in nominal value 1,988,255.94€ less.

Deficiencies determined in the audit of the item Expenditures for Environmental Protection Program are related to the item 4139 – Contracted Services, while there were no irregularities in other items.

**Contracted services**

The control of the expenditures recorded in item 4139 – Contracted services has shown that the plan for this item predicts amount of 4,941,351.00€, while 2,974,844.59€ has been implemented or 39.80% less than planned. Expenditures for contracted services make 89.84% of the total costs implemented through Environmental Protection Program.

The audit has included samples amounting 81.26% or in nominal value 2,417,330.91€ of the realized costs. Based on the processed samples the following irregularities have been determined.

At item 4139 – Contracted services, it has been determined that the funds amounting 207,682.57€ or 8.60% of gross costs in this item have been used inappropriately, or 7.70% of the gross expenditures at the level of the program included in the sample. The non-earmarked payments have been mostly made for business trips, amounting 56,948.67€ and for purchase of working uniforms, safe deposits, cash machines, concrete bins, telephone costs, installment for cars.
At item 4139 – Contracted services EUR1,966,506.41€ or 37.10% of the planned amount (5,299,239.26) for this program or 39.80% of the planned funds for contracting services, have not been used. If taken in consideration that this item also includes non-earmarked consumption (207,682.57€), the question arises whether this item has been planned well.

Non earmarked payment of business trip costs from item 4139 – Contracted services leads to inadequate presentation of the expenditures in item 4132 – Expenditures for Business Trips, in materially significant amount. Namely, the amount of funds used for business trips from item 4139 is 56,948.67€ or 284.74% compared to the funds (20,000.00€) which have been approved by the Budget Law for 2008 for this purpose.

The audit of the expenditure items of the Ministry has shown that from the Administration Program (from items 4139 and 4139) and Environmental Protection Program (from item 4139) the payment of loans for purchases of vehicles has been made. The examination of the account records has shown that the payment has been made based on the Loan Credit No. 969-88-219 as of July 17th, 2008, made between the Ministry (represented by the Minister) and Crnogorska komercijalna banka in the amount of 88,158.00€ for acquisition of 4 new motor vehicles. According to the Contract the payment period is 4 years. The funds have been paid to the supplier. This way of contracting commitments and making borrowings is opposite to article 31, 38 and 39 of the Budget Law (“Official Gazette of RoM”, No. 40/01, 44/01, 71/05 and “Official Gazette of MNE”, No.12/07) as well as with the Instructions on State Treasury.

**FINAL REMARKS**

The above-mentioned facts emerged from the audit have shown that there are some irregularities in the performance of the Ministry of Tourism and Environmental Protection, related to:

11. The discrepancies between the planned and implemented funds that show that there are weaknesses in the planning process,

12. The way costs are recorded is not accordant with the earmarked purposes determined by economic classification and has as a consequence inadequate representation of the same i.e. its implementation, so that comparison of implementation with the plan becomes inadequate.

13. There are cases of non-earmarked usage of funds

14. There are no accompanying documents for individual expenditures that would justify the used funds.
2.3. Public Procurements

Pursuant to the Law on Public Procurements, the Ministry is obliged to adopt the Plan of Public Procurements while planning the Budget, and the implementation of the plan should be made based on the funds approved by the Budget.

- The audit has shown that the Ministry has adopted Public Procurements Plan, which, amongst others, earmarks 4,545,000.00€ of funds for implementation of the capital budget projects. Since Directorate for Public Works is competent for the implementation of capital budgets, and that in this way the planned budget of public procurements of the Ministry (9,196,000.86€) is higher than the planned budget of the Ministry for 2008 (8,914,678.69€), the funds for implementation of the capital budget, except for the part financed by the Ministry, should not have been included in the Public Procurements Plan of the Ministry.

- It has been determined through the audit that motor vehicles valued 206,850.00€ have been procured, while the public procurements plan for the acquisition of Other Equipment (where vehicles belong to), predicts 42,000.08€.

- It has been determined with the audit that the public procurement procedure stipulated by article 77 of the Law on Public Procurements has not been applied, but that the procurement item has been divided and the procurement has been made with direct agreement to:
  - develop business analysis of the hotel-tourism economy in Montenegro and prepare statistical data for the Report to World Travel and Tourism Council – 5 service contracts with total value of 9,000.00€
  - hotel safe deposits (133 pieces) – five bills with gross value of 9,270.10€;
  - press clipping reports and media analysis services – 1,200€ in 12 months;
  - office furniture – 16 bills with total value of 22,765.91€;
  - other tourism services (mainly airline tickets) – 48,842.22€.

- By auditing, it has been determined that in the specific number of cases the appropriate procedure for public procurement has not been applied (the direct agreements have been made), which is not accordant to the article 19 of the Public Procurement Law ("Official Gazette of RoM", No.46/06), such as:
  - opinion poll – two bills with 6,000.00€
  - concrete bins – 15,701.40€ - two bills,
  - development of client service applications – 5,850.00€,
  - working uniforms – 33,404.70€ - several bills.

- It has been determined with the audit that the Contract for Supplies of the Vignettes is concluded worth 125,000.00€ based on the open call, and the same supplier has been paid 146,000.00€, which means that vignettes valued 21,000.00€ have been procured without invitation of a public tender.

- It has been determined with the audit that the Ministry with the amendment has increased Plan for Public Procurements (No.01-273/34 as of October 8, 2008) for 800,000.00€ for implementation of services, for contracted services – intended for development of Master Plan of Sustainable Tourism Development in the municipality of Kolašin. The introduction of the public
procurement worth above 100,000€ in the plan, through amendments, directly before publication
and advertising of the open call (contract on provision of consulting services is signed with the
adequate bidder on November 17th, 2008 after negotiating procedure), is not accordant with
article 27 of the Law on Public Procurement and it represents basis to cancel the public
procurement procedure.

The audit of the expenditures of the Ministry, included in the sample, has shown that the
Ministry has made a contract with physical person No.01-1192/1 as of April 16th, 2008 about the rental of
the business premises area 108 square meters, at first floor, filed in the real estate list – Entry 4344, at
land parcel No.118/15, building number 1, PD 17, KO Podgorica I.

The Rental Contract has been made without previously conducted public procurement
procedure, which is not accordant to the Law on Public Procurements (“Official Gazette of Montenegro”,
No. 46/06).

The said procurement has been made through direct agreement, opposite to article 19 of the
Law on Public Procurements and opposite to Basic Principles of Public Procurements (efficiency and
economy of the usage of public funds, competitiveness principle, and transparency of the procedure and
the principle of the equity of bidders).

III FINAL ASSESSMENTS, FINDINGS AND RECOMMENDATIONS

Based on determined facts and Statement of Ministry of Tourism and Environmental Protection
(number 01-2491/1 as of September 24th, 2009) on the report of SAI (number 40113-02-80/14), and
pursuant to article 50 of the Rule book of the State Audit Institution, the competent Board comprised of
MA Branislav Radulović (Member of the Senate – manager of the Board) and Mr. Miroslav Ivanišević
(Chairman of the Senate – member of the Board), at the session held on October 7th, 2009 has adopted
the FINAL REPORT on the auditing of the annual financial statements of the Ministry of Tourism and
Environmental Protection for 2008 with following final assessments, findings and recommendations:

The accounting records have not been updated and regularly maintained, especially in part of the
application of regulations that provision the accounting policy, above all Rule Book on Consistent
Accounts’ Classification for the State Budget, Extra-Budgetary Funds and Municipal Budgets
(“Official Gazette of RoM”, No. 81/05); the accompanying documents for individual expenditures
that would justify the funds used are also missing, so that the accounting system of the Ministry is
not providing for the adequate records on the budget implementation.

- It is necessary that the Ministry establishes a reliable and up-to-date accounting (which
  represents basis to develop reliable financial reports) as well as to consistently apply
  regulations that define accounting polices (above all Rule Book on Consistent Accounts’
  Classification for the State Budget, Extra-Budgetary Funds and Municipal Budgets).

- It is necessary that all expenditures are accompanied with documentation that would
  justify the used funds.
The expenditure planning process of the Ministry is not adequately developed with realistically determined amounts necessary for the implementation of the defined aims and tasks.

- **It is necessary that the Ministry performs more realistic planning of expenditures, so that in the controlled period there would be no significant exceeds over plans for individual items (business trips, public procurements, fees for working groups and so on).**

It has been determined that the Ministry does not comply with the Budget Law, Budget Law for 2008 and Instruction on State Treasury in part of the excess over Budget funds as well as in cases of non-earmarked expenditure of funds.

- **It is necessary that the Ministry abides by rules and applies provisions of the said laws and prevent non-earmarked fund expenditures.**

The funds for work of individual working groups and commissions have been paid without adequate documents (decisions, solutions) that determine the composition, work and deadlines for the groups, as well as the amount of fee for the same.

- **It is necessary that in future, without exception, article 69 of the Rule Book on Organization and Way of Work of the State Administration (“Official Gazette of MNE”, No.59/09) is applied.**

- **It is necessary to question justification of establishment of individual commissions and working groups that are made of one employee only, which are formed to conduct tasks that are contained within the job description of employees in the Ministry.**

It has been determined that the provisions of the Law on Public Procurements have not been respected (articles 19, 27, 77) while procuring goods and services.

- **The audited entity is obliged to strictly abide by the rules of the said Law while procuring good and eservice, especially in respect of the application of the direct agreement method and to use funds in accordance with the same Law.**
SUBMISSION
FROM THE AUDIT REPORT
ON ANNUAL FINANCIAL STATEMENTS OF THE EMPLOYMENT AGENCY
FOR 2008

Type of audit: General audit
Auditee: Employment Agency of Montenegro
Subject of audit: Annual Financial Statements for the year 2008
Audit duration: 64 working days
Auditing team: Milan Dabović, PhD and Dušan Mrdović
1. General information on Employment Agency

Employment Agency of Montenegro is a public institution with a status of a legal entity. The Agency is filed into the Central Registry of the Commercial Court in Podgorica, as stipulated by the Company Law, as an INSTITUTION under the entry number 8 – 0002003 / 005. The representative office is in Podgorica, Bulevar Revolucije 3.

The Agency management is established with the Law on Employment (“Official Gazette of RoM”, No.05/02, 79/04, 29/05 and “Official Gazette of MNE” No. 12707 and 21/08) and Statute of the Agency (“Official Gazette of RoM” No. 43/02). The Law on Employment defines employment, unemployment insurance, the rights of unemployed people and conditions and procedures to exercise rights, the way to provide resources and other issues of importance for organized and productive provision of employment.

Agency’s bodies are Management Board and Director. The Management Board is a managing body of the Agency. The Law stipulates the number of members in the Management Board of the Agency. Chairman and three members are appointed by the Government (decision No.03-333/04 as of February 2\textsuperscript{nd}, 2006), two members by the Association of Employers, two members by the Union Association of Montenegro and one member is elected amongst Agency’s employees, appointed by the Director. The Board’s mandate lasts for four year. Management Board has adopted Rules of Procedure on December 24\textsuperscript{th}, 2002.

Organizational structure of the Agency is determined by the Rule Book on Internal Organization and Systematization of Employees’ Posts. Pursuant to article 74 of the Law, the employment of personnel is performed by the organizational unit determined by the Agency’s Statute. The Agency performs its activities inside the Central Office, employment bureaus and offices. Central Office is at Podgorica, made of five sectors and one business unit. 7 employment bureaus have been formed inside the Sector and 14 offices at the territory of Montenegro. Sectors do not have departments and services.

2. Recording and reporting system

Recording system of the Agency is based on modified cash basis. Business books of the Agency record non-financial assets, financial assets, liabilities, equity, revenues and expenditures and determine business results. At corrective bills outstanding debts are recorded. The Agency has been operating through opened bank accounts in commercial banks during the month of January 2008, as of February 1\textsuperscript{st}, it has been included into the State Treasury system of Montenegro. The Agency is not linked to the information system SAP (Software of the State Treasury where treasury maintains its files). Pursuant to article 3 of the Rule Book on way of preparation, drafting and submitting of annual financial reports and statements of the budget, extra-budgetary funds, and units of local self-government, the Agency has submitted to the Ministry of Finance financial statements for 2008 in forms 1,2,4 and 5, in a letter number 06-2084 as of March 31\textsuperscript{st}, 2008. In addition, it has delivered Statement on the way funds have been spent after the end of fiscal year, which have been recorded as an expenditure.
3. Financing

The Agency has filed to the Ministry of Finance a Budget Plan for 2008, adopted by the Decision of the Management Board number 01-9144 as of December 28th, 2007, were it has recognized revenues according to the sources of financing and expenditures according to purposes, amounting 30,169,300.00€. The Law on Changes and Amendments of the Budget Law for 2008 proposes rebalance of the Budget on Agency’s account, amounting 5,871,413.00€. During the budget year transfer of funds has been made in benefit and on account of budget item of the Agency, in accordance with article 35 of the Budget Law, amounting 1,121,851.78€. By analyzing planned and realized expenditures it has been noticed that planning of expenditures has not been completely based on real needs per structure of expenditures and predicted purposes. Total planned funds for 2008 amount 36,040,713.00€, while realized expenditures amount 30,902,305.71€, i.e. the determined difference is 5,138,407.00€, which is close to the amount for rebalance of the budget. This shows that the Agency does not have a determined methodology of preparation and adoption of the financial plan that would more objectively determine procedures and more realistically show the needs of the Agency in accordance with its legal competences. The overview of planned and realized revenues per years with sources of financing of cash deficit has been shown in the table below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Results from operations</th>
<th>Sources of financing of cash deficit</th>
<th>Deposits</th>
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<tbody>
<tr>
<td></td>
<td>Outflows</td>
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<td>Surplus/deficit</td>
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<td>Transfers from the</td>
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<td>budget</td>
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<td>At opening balance</td>
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<td></td>
<td>At end of period</td>
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<td></td>
</tr>
<tr>
<td>2002</td>
<td>5,433,287.89</td>
<td>11,723,287.61</td>
<td>(6,289,999.72)</td>
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<td>2003</td>
<td>6,734,738.82</td>
<td>14,487,813.76</td>
<td>(7,753,074.94)</td>
</tr>
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<td>2004</td>
<td>7,917,048.99</td>
<td>10,954,131.93</td>
<td>(3,037,082.94)</td>
</tr>
<tr>
<td>2005</td>
<td>9,831,202.50</td>
<td>18,808,219.04</td>
<td>(8,977,016.54)</td>
</tr>
<tr>
<td>2006</td>
<td>11,355,003.77</td>
<td>29,177,590.94</td>
<td>(17,822,587.17)</td>
</tr>
<tr>
<td>2007</td>
<td>15,822,912.71</td>
<td>23,919,468.70</td>
<td>(8,096,555.99)</td>
</tr>
<tr>
<td>2008</td>
<td>18,824,000.91</td>
<td>30,442,305.52</td>
<td>(11,618,304.60)</td>
</tr>
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</table>

Series of systematized data of the Agency as of 2002 show that the cash deficit of this institution is high in 2006 and 2008. The most part of the cash deficit has been covered with transfers from the Central budget of the Government and cash inflows from sale of property. The high level of transfer exists in 2008, since in 2006 expenditures of the Agency have significantly increased and for the coverage of cash deficit the Agency has used, except from the funds provided with the sale of property, its own deposits. In this way there was not enough cash to cover activities this institution performs, so that sources of financing have been largely filled from the budget of the Government. We must note here that the current sources of financing of the agency have been mainly used for financing of administration costs, while capital expenses and program activities have been financed by sale of property and transfers from the budget. Consolidation of information shows that there is a need for more rational usage and examination of the volume of current expenses by the managing bodies, as well as the need to more realistically plan Agency’s activities, which need to be balanced with earmarked sources of financing.
4. Audit’s findings, recommendations and measures

The audit has included a broad range of activities performed by the Employment Agency of Montenegro (hereinafter Agency), so that except for the financial statements, the organization, work of managing bodies, legality of business, efficiency in usage of state money, as well as functioning of internal control, have been analyzed.

4.1. Work of the managing bodies and organization of the Employment Agency of Montenegro

The work of the managing bodies in 2008 has been based on internal documents that are not harmonized with the Employment Law (“Official Gazette of RoM”, No. 05/02, 79/04, 29/05 and “Official Gazette of MNE”, No. 12/07 and 21/08) and Budget Law (“Official Gazette of RoM” No. 40/01, 44/0, 71/05 and “Official Gazette of MNE”, No. 12/07 and 73/08). The control of the submitted minutes of the Management Board has shown that some decisions have been signed by the Chairman of the Management Board, but that they have not been discussed by this body, as well as that these decisions have not been verified at forthcoming discussions. The Statute does not clearly define the competences of the Agency. It is not clearly or comprehensively determined what decisions are made by the Management Board and what by the Agency’s Director, as far as assets, equity, capital investments and public procurements are concerned. It happens in practice that the Director reaches decisions that should be the competence of the Management Board, so it is essential that clear rules are defined by the Statute, about Board’s competences and responsibilities. The audit findings show that the Rules of Procedure, as an internal document of the Agency, are not harmonized with the legislation, it has been determined that tasks and obligations have not been divided between sectors, and that there is no clearly defined hierarchy inside sectors, so that competences overlap. In addition, there are no job descriptions, titles of working posts, and working tasks inside the Sector and employment offices.

Based on determined facts, as far as management and organization of the Agency are concerned, the Board proposes following recommendations and measures:

- It is recommended to the Agency to harmonize general documents with the Employment and the Budget Law.

- The work of the Management Board needs to be questioned. Chairman of the Management Board and the Director of the Agency shall be making their decisions based on the work of the Management Board, which shall be organized so that it shows without the doubt that the legitimacy of the decision-making process is not put in question, and which shall actively lead business policy of the Agency.

- Legal Affairs Department of the Agency, in the shortest possible time, needs to update its archive related to the work of the Management Board and provide permanency of preservation of documents with originals that have been verified, signed and registered in the archive of the Agency.

- It is necessary that the documents of the Agency more clearly define competences and responsibilities of the managing bodies in the Agency. In addition, it is necessary that the Management Board of the Agency introduces and defines its position against all decisions that have been made in 2008 and that have not been discussed at the sessions of this body.

- It is necessary that the Agency harmonizes the Rule Book on Organization and Systematization of Employees’ Posts with the legislation and to remove all deficiencies, with the aim to set and provide for an efficient operating of the internal control system.
4.2. Financial statements

The audit of the financial statements of the Agency showed that the cash flows disclosed in the report submitted to the Ministry of Finance are not correspondent to the state recorded in the gross balance. The opening balance of the cash and the recorded revenues in 2008 decreased by the payments in the same period, do not show the same amount of the cash confirmed by the commercial banks. The explanation about the difference between INT forms and these cash accounts in commercial banks of the Agency amounting 3,808,191.73€ has been provided by Ministry of Finance in detail. The explanation provided by the Ministry of Finance – State Treasury that relates to discrepancies between INT form with gross balance of the Agency, has made the Board accept the information recognized in accordance with the article 3 of the Rule Book on way of preparation, drafting and submitting of annual financial reports and statements of the budget, extra-budgetary funds, and units of local self-government.

4.3. Efficiency of planning and implementation of the Agency’s budget

Planning of the Agency’s budget for 2008 and its implementation show that the planning of expenditures has been irrational and not completely grounded on the analyses of true needs per structure of revenue and determined purposes. The expenditures stated through economic classification amounting 30,902,305.51€ relate to the expenditure for the work of the Agency amounting 8,176,053.11€ and to all expenditures based on the activities of the Agency in the process of conducting the policy of employment and other employment activities, amounting 22,776,252.40€. Out of the total amount of unpaid contributions for unemployment insurance, the most part (87%) the Agency uses for financing of current activities.

Expenses based on the fees for jubilee awards have been paid according to Director’s decision number 02-9179 as of December 25th, 2008 which is not in accordance with the article 36 of the Collective Agreement of the Agency. The said amount is not accompanied with valid documents, i.e. individual documents on payments, as well as lists verified and approved by the responsible persons of the legal affairs department.

Fees for commissions, working bodies and increased volume of work have been paid in 2008 amounting 159,656.89€, i.e. with accompanying taxes and contributions amounting 242,532.60€. Commissions and working bodies have been formed based on the decisions and solutions signed by Director of the Agency, made in period 2006, 2007 and 2008. The said working bodies have been formed to monitor and control programs and projects planned through annual activities of the Agency. The audit has shown that the said fees were not accompanied with reports of commissions about the work performed. The Agency on June 23, 2008 with the Decision number 02-4385 has put out of force all documents enacted up to May 1, 2008, which are related to formation of commissions and working bodies. Based on the examinations of individual documents according to which payments of said fees have been made, it has been determined that individual jobs and working tasks could have been performed in regular activities and in accordance with the decision of working positions and working tasks predicted with the Rule Book on Internal Organization and Systematization of Employees’ Posts in the Agency.

The control has shown that the justification of expenditures for representation costs has been accompanied with incomplete and non verified documentation, as well as that the expenditure for business trips relate to persons that are not in the employment relation with the Agency. Transfers to institutions, individuals, government and public sectors need to be primarily made to solve social problems of unemployed people or for the programs that could improve employment situation in Montenegro. Sponsorships have been paid from these resources in 2008, without the Decision of the Management Board of the Agency, and most of it went to sports clubs.
Media services and advertising services for the needs of the Agency should be accompanied with contracts, while invoices for payments need to be controlled and verified by certifying officer. Individual services, especially in IT area, are provided to the Agency based on 2002 and 2003 contracts, while the requests for payment are not accompanied with documentation that would justify the emerged costs and reports on performed services. We draw attention at the expenditure for services made through youth organizations, paid for performing temporary jobs and to the documentation that accompanies the emerged expenditures, and that needs to be signed by the provider of services and certified by the user of services.

During the audit, it has been noticed that there are weaknesses in the internal control system. Except for the Instructions on State Treasury, the Agency has not adopted Rule Book on Internal Control that would define control procedures and establish a control mechanism for rational and lawful expenditure of funds. Deficiencies in the internal control system are reflected on the spending of state money, i.e. efficiency of the management over the budgetary funds.

Based on the determined facts in part Efficiency of planning and implementation of the Agency’s Budget the competent Board proposes following recommendations and measures:

29. It is necessary to spend funds more rationally and to reexamine the current expenses by the managing bodies, as well as to plan activities of the Institution more efficiently, which need to be balanced gradually with earmarked funding. The eventual lack of budget transfers, cash from sale of property and repayment of loans for self-employment would significantly reduce the opportunity to finance legally established obligations and program activities. For this reason, it is necessary that the Agency establishes a more stable structure of expenditures through rationalization of current business costs.

30. It is recommended to the Agency to abide by the provision of the Collective Agreement of the Agency while calculating the said fees.

31. It is recommended that the Management Board of the Agency reconsiders the work of all commissions in 2008, to question their performance and when estimated that there are no evident results, reaches a decisions that the paid fees are returned.

32. The Management Board shall reconsider payment based on business trips to persons that are not employed in the Agency, as well as sponsorships, and take all necessary steps to limit discretionary right of expenditure of funds and demand more efficient fiscal discipline.

33. It is recommended to the Agency to reconsider contracts made in the previous period for the provision of IT services, as well as to conduct payment based on valid and controlled and verified documentation.

34. It is recommended to the Agency to adopt a Rule Book on Internal Control and in accordance with it organizes an office for internal control with the aim to establish efficient fiscal discipline in the process of implementation of the budget plan of the Agency.
4.4. Public procurements

The plan of public procurements has not been adopted in line with the article 27 of the Public Procurements Law ("Official Gazette of RoM", No. 46/06), the Agency has made a plan in beginning of 2008 for year 2008 and the same has been changed in the tenth month of 2008. In accordance with article 78 point 4 of the Law on Employment the Management Board is authorized to use funds of the Agency and in accordance with this we deem it is necessary that the Public Procurements Plan is adopted by the Management Board of the Agency. The Agency has not been abiding by the provisions of article 32 of the Public Procurements Law in the public procurement procedure, so that it has made adaptations and procurements over the legally allowed limits with direct agreements and at the same time it has not been acting in line with the article 78 of the Public Procurements Law. The authorized Board proposes to managing bodies to question once again the functioning of the public procurement system of the Agency, as well as the legality of public procurements made in 2008. The recommendations of the State Audit Institution are as follows:

- Management Board of the Agency should once again question the functioning of the public procurements system of the Agency as well as legality of public procurements made by the Agency in 2008.

- The Agency should respect the Public Procurements Law while procuring goods, services and works.

- The Agency should divide the competences of the Management Board and the competences of the Director in public procurements procedure and transfer the competence of adoption of public procurements plan to the Management Board.

4.5. Other issues

As far as sale of financial and non-financial assets is concerned it has been determined through the audit and examinations of the minutes from Management Board’s sessions, that these matters have not been discussed at the sessions of the Management Board and have not been verified by members of the Management Board of the Agency. Sale has been conducted based on the decisions signed by the Chairman of the Management Board and we also emphasize that the Auditor has not been introduced with the minutes about the estimate of the value of non-financial assets as well as about the sale procedures.

- It is recommended to the Agency, as far as sale of financial and non-financial assets is concerned, to stick to the legislation and make the sale process transparent.
SUBMISSION
FROM THE AUDIT REPORT ON ANNUAL FINANCIAL STATEMENTS
OF THE CENTERS FOR SOCIAL WELFARE
FOR YEAR 2007

<table>
<thead>
<tr>
<th>Type of audit:</th>
<th>General audit</th>
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<tbody>
<tr>
<td>Auditee:</td>
<td>Centers for Social Welfare</td>
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<tr>
<td>Subject of audit:</td>
<td>Annual Financial Statements for the year 2008</td>
</tr>
<tr>
<td>Audit duration:</td>
<td>45 working days</td>
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<tr>
<td>Auditing team:</td>
<td>Milan Dabović, PhD and Dragiša Pešić</td>
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General information on centers for social welfare

According to the Decree on Organization and Functioning of Public Administration in 2008, Ministry of Health, Labor and Social Welfare was competent for the administrative issues that are related to the social and child welfare. Public Institution “Centers for Social Welfare” performs its activities as stipulated by Law on Social and Child Protection (“Official Gazette of RoM”, No.78/05) and Decision on Establishment of Public Institution Centers for Social Welfare (“Official Gazette of RoM”, No.11/06).

Centers for Social Welfare, as stipulated by article 71 of the Law on Social and Child Protection (“Official Gazette of RoM”, No. 78/05), provide for implementation of adequate forms of social and child protection and they provide directly for services of social and child protection; solving at first level demands for exercise of the rights of social and children protection, they monitor and analyze appearances and programs of importance for social and child protection; support, organize and conduct activities to prevent and suppress social problems; maintain records and gather documents about all users of social welfare rights and material position of all families beneficiaries at the territory for which they are competent and perform other activities in accordance with the law and founding documents.

1. Organization of centers for social welfare

Centers for social welfare, by the Decision on Establishment of Public Institution Centers for Social Welfare, have been organized as:

- Public Institution Center for Social Welfare, Podgorica, Cetinje, Danilovgrad and Kolašin, with representative office in Podgorica.
- Public Institution Center for Social Welfare for municipalities Nikšić, Plužine and Šavnik, with representative office in Nikšić;
- Public Institution Center for Social Welfare for municipalities Pljevlja and Žabljak, with representative office in Pljevlja;
- Public Institution Center for Social Welfare for municipalities Bijelo Polje and Mojkovac, with representative office in Bijelo Polje;
- Public Institution Center for Social Welfare for municipalities Berane and Andrijevica, with representative office in Berane;
- Public Institution Center for Social Welfare for municipalities Bar and Ulcinj, with representative office in Bar;
- Public Institution Center for Social Welfare for municipalities Kotor, Tivat and Budva, with representative office in Kotor;
- Public Institution Center for Social Welfare for municipalities Rožaje, with representative office in Rožaje;
- Public Institution Center for Social Welfare for municipality Plav, with representative office in Plav;
- Public Institution Center for Social Welfare for municipality Herceg Novi, with representative office in Herceg Novi;

Public Institution Centers for Social Welfare that are established for several municipalities organize their services in municipalities outside the representative office of the center, in accordance with the individual statutes. Managing bodies of the Institution, in accordance with article 74 of the Law are Management Board and Director.

FINDINGS AND RECOMMENDATIONS

Based on determined facts, the competent Board has registered the following irregularities and deficiencies, based on which it has made recommendations to eliminate them and improve the operations of the auditee.
The work of the managing bodies

The positive circumstance is that the authorized Ministry has the unique policy for fees of all members of management boards in all centers for social welfare. The fees for members of the management boards are determined objectively, but the height of their fees needs to be reconsidered and linked to the number of held sessions.

We recommend to the authorized Ministry to reconsider the option to link payments made to Management Board members with the number of held sessions.

1. System of internal control

Centers for Social welfare have not, in most part, respected the provisions of the Instructions on State Treasury and have not adopted Rule Books on Internal Control procedures, that would define policy of internal control. It has been noted that the formal, essential and accounting control of the records has not been made, and the control and monitoring of individual costs have not been made. Inadequate communication, information and coordination with the authorized Ministry has caused that centers for social welfare are performing inaccurate classification of revenues, and that the income from other sources cannot be reliably identified.

We recommend to the Ministry to sets an internal control system in cooperation with Centers for Social Welfare and to bring adequate subordinate legislation that would specify this area closely.

2. Recording and planning system

As far as accounting records are concerned, it has been determined that there are deficiencies related to the inadequate control of regulations that define the accounting policies, above all violation of the provisions of the Rule Book on Consistent Accounts’ Classification for the State Budget, Extra-Budgetary Funds and Municipal Budgets (“Official Gazette of RoM, No.81/05), Rule Book on way of preparation, drafting and submitting of annual financial reports and statements of the budget, extra-budgetary funds, and units of local self-government (“Official Gazette of MNE“ No.21/09) and Instructions on State Treasury (“Official Gazette of MNE”, No.80/08). Centers Bijelo Polje, Rožaje and Plevlja have not provided for electronic records that would enable more efficient source of information.

We recommend to the competent Ministry to organize adequate vocational trainings for personnel in cooperation with the Ministry of Finance, to apply Rule Book on Consistent Accounts’ Classification for the State Budget, Extra-Budgetary Funds and Municipal Budgets (“Official Gazette of RoM”, 81/05), Rule Book on way of preparation, drafting and submitting of annual financial reports and statements of the budget, extra-budgetary funds, and units of local self-government (“Official Gazette of MNE”, No. 21/09), and Instructions on State Treasury (“Official Gazette of MNE”, No.80/08).

3. Reporting

The competent Ministry has delivered to the Institution the consolidated financial statement in the auditing procedure, based on which it has been determined that the report has not been made as a consolidated statement, but based on information from General Ledger of the Treasury, with simple summary of the information about the implementation of the budget of the competent Ministry and public
institutions. We believe that the competent Ministry should have consolidated financial statements of all public institutions that are included in the budget of the spending unit Centers for Social Welfare, based on individual financial statements, that should have served as basis to record unrecorded incomings and outflows in the General Ledger of the Treasury. Centers for Social Welfare have recognized revenues in the cash flow statements, but they have not classified them accordingly, so that it could not be determined whether these are earmarked funds or donations made by implementation of individual programs. Revenues made this way have not been recorded in the Law Proposal on Budget Accounts for 2008.

It has been determined through the audit that Centers for social welfare have financed 487,064.78€ from own resources, which have not been recorded in the Proposal Law on Budget Accounts for 2008. The structure of expenditures shown in cash flow statement III, is not adequate to the structure of expenditures of the Budget from which items a transfer has been made upon payment request that has been delivered to the State Treasury by the competent Ministry on behalf of centers for social welfare. This conclusion is confirmed by the differences in items, amongst the recognized expenditure in the Proposal Law on Budget Accounts for 2008, and recognized expenditures in the cash flow statement III. We must draw attention that the Center Bijelo Polje has not made a Cash Flow Statement III in its accounting records, including expenditures that have been made but are not paid in the reporting period.

Cash flow statements III made by the Centers for social welfare cannot be reliably accepted as accurate, because they do not correspond to the recognized balance of deposits at the beginning and end of the fiscal year. The difference between the sum of the opening balance of cash and gross increase of funds, and the end balance of cash amounting 23,816.60€ cannot be reliably determined as accurate. The reason is that centers for social welfare do not have a consistent recording system when return of funds is in question. Namely, Post Office of Montenegro, as mediator between centers for social welfare and users of social welfare, is returning the funds that have not been paid to social welfare users. Centers record amount of returned funds differently, which is not in accordance with article 11 of the Budget Law.

Pursuant to article 2 of the Rule Book on way of preparation, drafting and submitting of annual financial reports and statements of the budget, extra-budgetary funds, and units of local self-government, centers for social welfare are obliged, if they have unused funds in sub-accounts or transitory accounts that are recorded in General Ledger as an expenditure, and which the centers are not able to transfer to end users by December 31 of the current year, to transfer them by March 31st of the following year and inform the Ministry of Finance to make correction in the General Ledger of the Treasury. Upon request of the competent Ministry, centers for social welfare have delivered statement on the way funds are used that are at the accounts of commercial banks and cash-in-hand. It has been determined through the audit that due to inconsistent application of the said Rule Book and Instructions on State Treasury, as well as because of the inaccurate identification of funds, whether these are expenditures or deposits, centers for social welfare have not correctly recognized the amount and the purpose of funds.

We recommend to the competent Ministry to provide consolidated financial statements of spending unit Centers for Social Welfare, based on reports of individual centers for social welfare and transactions from the Treasury, in all in accordance with the International Accounting Standards for public sector and that before elaborating annual financial statements centers for social welfare should provide for consolidation with records in the General Ledger of the Treasury.
4. Implementation of the budget

Several Centers for Social Welfare are not recoding and classifying revenues in accordance with sources of income, which could be determined by the submitted cash flow statements, and this is why it was impossible to determine what funds have been deposited from the budget, donations and other sources of income. Center Herceg Novi has not recorded revenue for approved loans, while some centers have balanced their revenues (which have been recognized by rule already) with expenditures, which has influenced incorrect identification of own revenues.

It is recommended to the centers for social welfare to, with the aim to more realistically monitor sources of financing, provide classification and record of revenues based on their sources.

The structure of the expenditures shown in the books of centers for social welfare is not correspondent to truly implemented budget expenditure records stated in the Proposal Law on Budget Accounts for 2008. The examination of the accounting records based on which payments for material and services have been made, has shown that individual payments have been made based on incomplete documentation, as well as based on documents that have not been verified and approved by the side of a competent person, which is opposite to the point 26 of the Instructions on State Treasury.

We draw special attention to the payment of one-off support to employees working for centers for socials welfare. The payments of fees for one-off support are mainly conducted through treasuries in centers. The audit findings show that in some centers payment of one-off support is made by persons which are working in accounting sector for special treasury, as well as that the transfer of funds from main treasury to the cash departments of the centers in municipalities is not conducted based on valid documents that need to contain signatures of competent persons from cash departments, who pay and accept cash payments.

It is recommended that centers for social welfare pay fees to employees not based on expenditures for rights on social and child protection, but on the account of personal income, or as transfer to individuals depending on the way the case has been decided about. In addition, all payments of one-off support need to be conducted through main treasury department and transfer of funds between the main cash department and cash departments in municipalities needs to be based on valid documents with signature of people responsible for transfers.
SUBMISSION

FROM THE CONTROL AUDIT REPORT ON ANNUAL FINANCIAL STATEMENTS

OF THE VETERINARY ADMINISTRATION

FOR YEAR 2008

Type of audit: Control audit
Auditee: Veterinary Administration
Subject of audit: Control of implementation of recommendations made in Audit Report on Financial Statements of Veterinary Administration for 2007
Audit duration: 20 working days
Auditing team: Milan Dabović, PhD and Miroslav Ivanišević
1. **Background Information**

Veterinary Administration has been established by the Decree on Organization and Functioning of Public Administration ("Official Gazette of MNE", No. 54/04) as of August 9th, 2004. The Ministry of Agriculture, Forestry and Water Management supervises the work of the Veterinary Administration. The competences of Veterinary Administration have been prescribed by the provisions of the Veterinary Law\(^2\) and Decree on Organization and Functioning of Public Administration\(^3\).

Decree on Organization and Functioning of Public Administration defines competences of Veterinary Administration, with article 24, stipulating the following: monitoring and prevention of appearance, detection, suppression and eradication of animal diseases; conducting veterinary prevention with animals; production of animal origin produces, raw material, waste, food of animal origin, animal feed, seeds for insemination, ovaries in international trade, and over border trade; health protection of animals, conducting public issues of interest, determining of fulfillment of veterinary-sanitary conditions for performing veterinary activities and issuing licenses for conducting those activities; inspectorate in area of veterinary; developing analysis, annual programs of monitoring and prevention of diseases and zoonoses, at territory of the Republic (brucellosis, enzootic leucosis with beeps, tuberculosis mastitis, anthrax, plague and other); monitoring of implementation of prevention program; maintaining unique registry and facilities that are subject to veterinary-sanitary control; cooperation and coordination with international veterinary organizations (OIE and similar), institutions, companies, and other institutions in area of veterinary; executing international agreements, as well as other jobs that are in its competence.

The organization and systematization of vacancies in Veterinary Administration is defined with the Rule Book on Internal Organization and Systematization of Employees’ Posts. In 2008, Veterinary Administration has adopted new Rule Book on Internal Organization and Systematization of Employees’ Posts number 323/08-0101-2151-323, approved by the Ministry of Agriculture, Forestry and Water Management, Ministry of Finance, and Humans Resources Management Authority.

2. **Findings of the audit and determined facts**

The State Audit Institution has audited financial statements and businesses of Veterinary Administration in 2009 and made an Audit Report with Opinion and Proposal of Measures to be taken\(^4\). The audit of the Financial Statements of the Veterinary Administration for 2007 has shown that there is a number of deficiencies and misstatements in the management of public finances and property, so that the recommendations and measures to eliminate the same have been made with the Audit Report. Reserves have been expressed in the Report that should have served for the improvement of the records maintained by the Veterinary Administration and more rational and efficient management of state’s money.

At the request of the State Audit Institution, the Veterinary Administration with act number 402/9-0401-112/82 as of May 20\(^8\), 2009, has informed the Institution about the activities to eliminate deficiencies, as disclosed within the Audit Report on Financial Statements for 2007. With the said document the Veterinary Administration has explained about the measures it has taken to act upon the provisions of the State Audit Institution.

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\(^2\) "Official Gazette of RoM", number 11/04, 7/04, 8/04, 27/07, 48/07, and "Official Gazette of MNE", No. 14/07 and 14/08.

\(^3\) "Official Gazette of RoM", No 54/04 and "Official Gazette of MNE" number 6707 and 16707

\(^4\) SAI number 40113-03-43/18 as of September 2008
The control audit of the Veterinary Administration, in accordance with the given recommendations from the Report for 2007 and activities taken by Veterinary Administration, has revealed the following:

2.6. Recording system

The Audit Report for 2007 recommends that “It is recommended that Veterinary Administration provides the internal records on inflows based on own activities and to harmonize periodically those records with the State Treasury’s General Ledger, in order to enable more effective collection of its receivables and to enable more objective reporting.”

It has been determined through the control audit that the Veterinary Administration has not acted upon given recommendations provided within the report, except for records of inflows related to the providing of veterinary-sanitary approval. As far as the given recommendations related to the recording system are concerned, the Institution, bearing in mind that the Report on the previous audit has been delivered in month of September 2008, has adopted the information provided by Veterinary Administration that it has acted upon the said recommendation in 2009.

2.7. Planning and implementation of the budget

The previous audit has shown that the planning of expenses is not fully based on analysis of actual needs, structure of income and earmarked purposes. That has lead to a situation where Budget implementation in the Veterinary Administration partly deviated from budgetary intended activities for 2007. In that sense the State Audit Institution has given recommendations that “Veterinary Administration harmonizes its annual Budget plans with actual needs and to minimize deficiencies, when implementing the budget, compared to the planned funds”.

In addition, the previous audit has given recommendations to Veterinary Administration to cover outflows based on valid and previously controlled documents. We would like to emphasize that Veterinary Administration in 2008 and subsequent years has to maintain fiscal discipline and has to use funds in accordance with the outflows structure approved by the Annual Budget law.

The control audit, conducted to supervise the implementation of recommendations given, has shown that the Veterinary Administration has harmonized its expenditures with the height of the approved budget for 2008, but that the approved funds in one part have not been used as earmarked. The implementation of the Budget in 2008, according to the structure and determined limits, is not accordant to the budget of planned purposes, and the part of the fund determined with the Budget has been used inappropriately, so we can conclude that the given recommendations have not been implemented.

As far as smaller irregularities that have been noticed while singing employment contracts are concerned, the audit has shown that the Veterinary Administration has performed as recommended by the Institution.

Based on stated facts, the Institution still recommends to Veterinary Administration to plan expenses in accordance with actual needs, since the legislator foresees the possibility to use Budget funds more flexibly through legally prescribed procedures.
2.8. Internal control system

The previous audit has shown that: “Control mechanism for rational fuel consumption, representations, vehicle maintenance, telephony bills and business trip expenses, have not been made”.

Control audit findings show that the Veterinary Administration has made certain steps forward to establish system of internal control. In addition, we draw attention to the fact that the Veterinary Administration still needs to improve internal control system and to adopt a rule book on internal control procedures that would define internal control policies.

The recommendation provided within the previous Report, related to existence of some weaknesses in internal control system for management of public funds intended for special purpose programs are as follows:

To base budget plan relating to the special purpose program – Operational Program on animal health protection, on clearly defined goals and activities while Program implementation and reporting on it should be based on the activities planned.

To make payments in accordance with payment methods provisioned in the Operative Program on animal health protection and based on correct and previously inspected documents;

To revise its leasing contracts signed with the veterinary practices;

To make advance payments and to justify them in accordance with the Instructions on the State Treasury;

According to the Operational Program on Animal Health Protection, to sign, annually, contracts with the Specialist Veterinary Laboratory, which would define mutual rights and obligations, especially having in mind price lists for diagnose setting services, warehousing the injections and other diagnostic means, as well as warehousing medicines and their subsequent distribution to the authorized veterinary practices;

Records of the commissions assessing market value of slaughtered or dead animals, in order to suppress spreading of infectious animal diseases, where those records represent basis for determining the amount of compensation, should be more precise and should contain more details on slaughtered/dead animal.

Based on the factual situation, and with the aim to implement the said recommendations it has been determined:

11. Operative Program on Animal Health Protection for 2008 adopted by the Ministry of Agriculture, Forestry and Water Management defines aims and activities that need to be conducted by managers of the project. The control of planned and spent funds and efficiency in execution of individual programs was impossible to be controlled through the audit, since Veterinary Administration in 2009 has not provided records and monitoring of costs per program inside the Operative Program on Animal Health Protection for 2008. Bearing in mind that the Report has been delivered in month of September 2008, the Institution has adopted the information made by the Veterinary Administration, that the Veterinary Administration has acted upon this recommendation in 2009.
12. Veterinary Administration in 2008 has signed contract on transferring competences of public interest to veterinary practices. The audit has shows that the payments to veterinary practices have been made by submitted invoice and in accordance with the payment principle predicted by the Operative Program on Animal Health Protection for 2008. Minutes of the performed inspection on control of measures conducted within Operative Program and confirmation on diagnosing, have been delivered with submitted invoices. In accordance with the auditing evidence it might be concluded that the **given recommendation provided with previous report was implemented.**

13. Recommendation given with previous report, related to rental contracts with veterinary ambulances, shows that the Veterinary Administration has made contract on leasing of premises and equipment in 2009 to veterinary ambulances. The contract stipulates the obligation of tenants and lessor and the amount of rental. Based on auditing evidence, we might conclude that the **recommendation provided with previous report has been implemented.**

14. Upon the recommendation provided in previous report that the contract with Special Veterinary Laboratory should be signed, defining mutual obligations and rights, the audit has shown:

Veterinary Administration has signed Contract number 323/08-0101-1311 as of May 26th, 2008, with Specialist Veterinary Laboratory, that establishes mutual rights and obligations in accordance with Operative Program. The payments amounting 402,893.39€, except for payment amounting 20,000.00€, have been conducted based on submitted invoices in accordance with the Operative Program. Documentation proving the volume and type of performed laboratory researches has been delivered along with the invoices. The above mentioned amount of 20,000.00€ has been paid to Specialist Veterinary Laboratory in advance for diagnosing of dangerous animal diseases, which is in accordance with Operative Program for 2008. The justification of the advance payment has been made based on the submitted invoice. Based on audit findings, we might conclude that the **recommendation given with previous report has been implemented.**

- It has been determined that, as far as subventions in production and provision of services are concerned, payments have been made that are related to compensation for damage to owner of dead animals, in accordance with article 57 of the Law on Veterinary. The audit of the expenses made for compensation of damage shows that the expenses made have been justified with documents that include demand of physical persons for compensation of damage, application form for doubts about diseases, report on conducted inspection, minutes on conducted estimate of the market value of animals, reports on examinations in veterinary laboratory and decision about the payment of damage to the recipient, which is in accordance with article 56 of the Law on Veterinary and Operative Program for 2008. Minutes of the Commission, based on the estimate of the market value of died and slaughtered animals are modified with more precise data on the slaughtered animal. Based on the determined facts, we might conclude that the **said recommendation has been implemented.**

2.9. Cash and outstanding debts

With previous Report it is recommended to the Veterinary Administration to “harmonize balance of outstanding debts on December 31, 2007 with the Ministry of Finance and to contract liabilities in accordance with the approved dynamics for fund spending”.

In the report on outstanding debts for 2008, that was delivered to the Institution by the Veterinary Administration, the said balance of the outstanding debts in 2009 amounts 247,145.37€. The recognized
The amount of outstanding debts in the previous period is not correspondent to the final balance of the outstanding debts for 2007, which leads to a wrong conclusion about net increase, i.e. decrease of outstanding debts in the reporting period. The audit has shown that the Veterinary Administration in its business books is not maintaining records of accounts payable and receivable, so we were not in a position to determine the accuracy of the said data in the Report on Outstanding Debts. In accordance with this, we can conclude that the Veterinary Administration has not acted upon the given recommendation.

The Institution still insists that the Veterinary Administration maintains records of liabilities that will serve for accurate recognition of outstanding debts at the end of business year, as well as that the contracting of services is conducted based on the approved funds.

The recommendation provided within the previous report that the “Veterinary Administration pays and keeps records on its collected revenues in accordance with the Instructions on the State Treasury” has not been implemented, which is confirmed by the determined facts.

The cash recorded based on revenues from own activities in 2008 amounts 8,733.60€. Out of the said amount, 6,000.00€ has been paid to the Treasury’s account, and the cash amounting 2,542.10€ has been used for payments of costs for business trips and fuel, without the proper records in General Ledger of the Treasury. In accordance with this, the Institution still persists on the recommendation provided with the previous Report.

2.10. Assets and public procurements

The previous audit showed that the Veterinary Administration did not make the inventories of its property. In accordance with this, it was recommended that “It is necessary to pay more attention to listing, starting from adopting decisions on listing assets and scheduling property and listing their sources as well as establishing the adequate Commissions to perform those tasks, up to comparing physical listing with the actual state of affairs”. With the control audit it has been determined that the Veterinary practices have submitted the inventories lists about the assets and equipment rented, and that the Veterinary Administration has made a Report on Stocktaking. Based on determined facts, we might conclude that the said recommendation has been implemented.

3. Assessment of findings

The control audit of Veterinary Administration for 2008 and the determined facts lead us to the conclusion that the audited entity has made some improvements in its work and conducted certain activities to implement recommendations contained within the Audit Report on Financial Statements for 2007. In addition, it can be concluded that the specific recommendations are partly implemented and some have not been implemented at all. Due to the fact that the Audit Report for 2007 has been delivered to the Veterinary Administration in September 2008, so from objective reason it was impossible for the Institution to fully implement recommendations, the Institution provides the following recommendation:

- That the Veterinary Administration in 2009 further implements all given recommendations in the Audit Report of the Veterinary Administration for 2007 and to inform State Audit Institution on conducted activities for removal of certain deficiencies.
SUBMISSION
FROM THE PERFORMANCE AUDIT
OF THE HUMAN RESOURCES MANAGEMENT AUTHORITY
FOR YEAR 2008

Type of audit: Performance audit (3e)
Auditee: Human Resources Management Authority of Montenegro
Subject of audit: Performance Audit (3e)
Audit duration: 90 working days
Auditing team: Dušan Mrdović and Milan Dabović, PhD
I  INTRODUCTION

4. AUDITEE

Human Resources Management Authority is a new authority in the public administration system of Montenegro established in 2004 upon the adoption of the Law on Civil Servants and State Employees. The system function this authority performs, except for human resources management, is to provide improvement of skills and trainings for civil servants and state employees.

The main function, i.e. competences of this state institution are directed to:

- the management and development of personnel in the Montenegrin state authorities,
- the maintenance of human resources information system for management and development of human resources in these authorities,
- improvement and development of human resources management system in state authorities,
- increase in the level of education of personnel working within.

Human Resources Management Authority has set as its key task provision of conditions for modern management of personnel in State authorities and their permanent development in accordance with most important European standards in this area.

Improvement of skills and trainings for civil servants and state employees represents the most important process of administrative reform. Without competent civil servants and state employees the administrative system cannot operate legally or rightfully, so the improvement of skills and training are most important functional elements in the process of implementation of new legislation, and reform of administration overall.

5. SUBJECT OF THE AUDIT

Subject of this audit is performance audit, i.e. economy, efficiency and effectiveness in implementation of activities in Sector for Conducting Public Advertising and Monitoring of Implementation of Regulations, Sector for Training and Development of Human Resources and Center for Information System.

Subject of the audit in the Sector for Public Advertising and Monitoring of the Implementation of Regulations, is a way people are appointed in working posts (advertising of vacancies).

Subject of the audit in the Sector for Training and Development of Human Resources is improvement of personnel’s skills.

Subject of the audit in the Center for Information system is establishment and implementation of information system on personnel.
6. **TYPE OF THE AUDIT**

The State Audit Institution has performed the **first performance audit, i.e. effectiveness, efficiency and economy audit (3e)** in Human Resources Management Authority.

**Effectiveness** represents the relationships between achieved results and set aims. Subject of the audit operates effectively if implementation of its activities leads to the realization of expected result.

**Efficiency** represents the relation between results and spending of financial assets to achieve those results. The subject is acting in accordance with the efficiency principle if it achieves the set aim with minimum invested funds, i.e. achieves maximum possible results with available funds.

**Economy** represents performance of duties with minimum expenditure taking care about the quality of the performed task. The subject respects the economy principle if it is acting economically in usage of public funds while procuring services and other structures that are in the function of implementation of subject’s activities.

Summarizing the results of the audit after the developed Report on Performance Audit (3E) of the Human Resources Management Authority and after the letter of statement for the subject report made by the audited entity (no. 5271/1 as of January 9th, 2009), about the acceptance of the given recommendations, the Board of Sector IV, at the session held on March 20th, 2008, has implemented the Final Report on Performance Audit (3E) of the Human Resources Management Authority for 2008 and it has provided for following findings and recommendations:

II **FINAL FINDINGS, ASSESSMENTS AND RECOMMENDATIONS**

7. **Sector for public advertising procedure and monitoring of the implementation of regulations**

General aim of this sector includes realization of activities that are related to the public advertising procedure, monitoring and implementation of regulations.

Based on the determined facts in the audit procedure, the following deficiencies have been determined for which SAI has made recommendations to remove the same and improve the work in this sector, in part of:

- Obtaining of excerpts from criminal records,
- Recognition of working experience,
- Dynamics of processing of requests in employment procedures.

8. **Obtaining excerpts from criminal records**

Findings of the audit show that the Human Resources Management Authority is obtaining excerpts from criminal records in written form from Branch Offices of the Police Directorate, for candidates that have applied to subject advertisements. The deadline to deliver the said excerpts is 15 days. If the excerpts from criminal records cannot be procured within 15 days, the official asks that the
candidate writes a statement that he/she has not been convicted of any criminal act that could make him/her inappropriate for performing services in a state authority (in accordance with article 16 of the Law on Civil Servants and State Employees).

The excerpt from criminal records is an integral part of necessary documentation for subject advertisement and in individual cases it has not been provided in legally prescribed deadline. The Sector can act efficiently only if it receives the excerpt from criminal records in timely manner, and thus enable employment of the adequate candidate.

- **The State Audit Institution recommends that it would be very important that the Human Resources Management Authority initiates along with the Police Directorate establishment of central criminal record that would improve the work of this institution and at the same time shorten the time and procedure for issuance of the excerpt from these records, delivered to the Humans Resource Management Authority while employing, so that the adequate candidates need not be eliminated.**

9. **Recognition of working experience**

The audit findings have proven that while making employment contracts with individual candidates that apply to public advertisements, working experience based on various confirmations verified by private companies has been acknowledged, as well as working experience gained through service contracts. Because of this way of acknowledgement of working experience it has been determined in the audit that Administration Inspectorate has intervened two times and that the Human Resources Management Authority still continues with the established practice to recognize working experience based on confirmations.

Proving working experience based on various confirmations is not accordant with the Employment Law. Article 8, item 1 point 4 of this law states: **“Working experience means the time spent in working relations with the level of education necessary for specific type of vocation, which is proven with Employment Booklet“**. The legislator has imposed that only persons that deliver valid proof about the working experience shall be employed and that this effect can be achieved only if the Authority relies on relevant proofs about the working experience, as stipulated by the law.

It is important to emphasize here that the provisions of the Law on Civil Servants and State Employees regarding working experience as a special condition for employment of this category of people need to be systematically interpreted, and this means determine the sense and spirit of this legislation. As this is a special category of people that are appointed or selected at managing positions or when civil servants or state employees in state authority or body of the state administration are signing employment contracts for specific vocation, working experience needs to be recognized only if it is a consequence of the working relation between the employer and employee. In addition, this further presupposes the years of service in the vocation and type of vocation in time of employment.

- **The State Audit Institution recommends that the recognition of the working experience is based on certified copy of the Employment Booklet that the candidates need to deliver while applying to a concrete vacancy notice with the aim to abide by the rules of law that regulates this area.**
10. **Dynamics of conducted activities in employment procedure**

We have determined through the audit that there is a great time discrepancy between processing of requests in employment procedures inside the individual state institutions. It has also been noticed that the time for employment procedure has decreased in 2008 compared to 2007.

The sector is not providing records about the comparable data related to processing of requests in employment procedures through individual state authorities. The sector would be operating more efficiently if it would provide for comparable overview that would define reasons why time for employment procedure has shortened while conducting advertisement procedures.

- **SAI recommends to the Authority to find adequate mechanisms that would find reasons that have lead to shortening of time while processing requests in advertising procedure, which would improve the work in the sector.**

11. **Training and Improving of Personnel’s Skills Sector**

General aims of this sector include implementation of activities that are related to training and development of personnel’s skills.

Based on determined facts in the audit procedure, some irregularities have been determined in implementation of activities of this sector for which SAI has made recommendations with the aim to remove the same and improve the work of this sector in part of:

- Planned topics for training and implementation of planned trainings,
- Determining reference values,
- Expert trainings of employees in Human Resources Management Authority.

12. **Topics for training and implementation of planed trainings**

The audit has shown that out of 57 planned topics, at 15, i.e. 26% topics there were not enough applied participants or there were no applied participants at all, so the same were not held.

The audit has also shown that the selected topics for expert training programs for civil servants have not been clearly defined, i.e. determined to which category of civil servants individual topics had been planned for, so that civil servants with various vocations have participated at the same trainings, which was useless.

We believe that there is no point to train someone who has no capacity to apply the gained knowledge in his/her job and transfer the same to other employees.

In addition, it has been determined that a number of implemented trainings compared to the planned amounts 59%, and that the number of attendees compared to the number of people who applied amounts 63%. 
Based on the said indices it can be concluded that numerous trainings were not held and that the attendance in trainings is low. The Sector would be much more efficient and provide better effects if topics of the program would be harmonized with the needs of attendees.

- **SAI recommends to the Human Resources Management Authority to set better cooperation with supervisors and contact persons in state administration, and to more precisely define to what category of employees the trainings are intended to, which would result in better attendance and more interest from candidates.**

**Determined referent values**

The audit has shown that the Human Resources Management Authority, based on experiences of surrounding countries, has made calculations and determined the referent values as follows: expenditure per one training amounts about EUR525, average cost per one attendee is EUR35, and the low limit of viability, i.e. the lowest number of attendees that need to be present at training is 15. Based on this, funds for financing have been planned.

The audit has shown that the average cost per one seminar amounts 1,288.00EUR in 2007, which is almost 150% more compared to the Budget, and in nine months 2008 1,200.00EUR, which is almost 130% more compared to planned costs, while average cost per one attendee amounts 91.00EUR, and that the average number of attendees per training amounts 12 which is below the low limit by 20%.

Based on available data it has been determined that there are some discrepancies in part of planned and spent funds per seminar, as well as average costs per attendee, and that the average number of attendees per training amounts less than determined low limit of viability, which makes us conclude that the referent values are not adequate. The sector would be more economical if it would determine the true referent values and provide records about the costs per seminar.

- **SAI recommends to the Human Resources Management Authority to provide records on cost per seminar, to develop new estimates and change referent values that have proved to be unrealistic, bearing in mind the indices in the last two years.**

**Expert training of employees in Humans Resources Management Authority**

The audit has shown that employees in Human Resources Management Authority in 2007 and 2008 have performed several study tours and participated at several trainings abroad.

Employees in Human Resources Management Authority go through expert trainings abroad, through various study tours and trainings, which caused additional costs for business trips and expenses for trainings, as well as longer period of absence from work, which influences their successful performance of everyday working tasks.
• **SAI recommends to the Human Resources Management Authority to adopt a plan and program for training of employees (in country and abroad), to clearly define the type, conditions and criteria for trainings. The Authority needs to be very critical while planning trainings for employees abroad, i.e. to conduct trainings of employees outside the country only if truly necessary.**

*IT center*

The main aim of this sector is to implement activities to establish and develop **Human Resources IT system**.

Except for activities related to establishment and development of human resources IT system, this sector also conducts following activities, as follows:

- Permanent administrating and updating of Website of the Human Resources Management Authority,
- Testing of computes literacy while employing,
- Training employees in state administration to work on computers.

13. **Engaging employees of IT Center in trainings**

The audit has shown that **exclusively employees from this sector** are engaged as lecturers in computer trainings, although the advertisement for lecturers for this and other topics is permanently opened at website of the Human Resources Management Authority. It would be desirable that external lecturers are also employed for the said purposes, so that employees of this sector would be unburdened from additional tasks, which are not part of their job description as prescribed by the Rule Book on Internal Organization and Systematization.

It is determined that most employees in all sectors of the Human Resources Management Authority have been engaged as lecturers in various trainings.

We appreciate the effort of the management to additionally motivate the employees, but we believe that the above-mentioned activities need to be included in job description, and if this is not possible than trainings need to be organized after working hours to avoid employees being paid on two basis: salary and service contracts in working hours, and in this way the Sector would be performing more efficiently and economically.

• **SAI recommends that the training activities are included in job descriptions of employees that perform these trainings and that a way is found for payment on the same basis as salaries, or that the computer trainings as well as other activities conducted by employees of Human Resources Management Authority are conducted after working hours.**
14. **Activities of Human Resources Management Authority that are not included in the audit by sectors**

Based on determined facts the audit has shown that there are deficiencies as far as activities of the Human Resources Management Authority are concerned, not included in the audit of abovementioned sectors, as follows:

- Proposal of the new Rule Book on Organization and Systematization of Employees’ Posts,
- Organization of financial-accounting tasks
- Recording of property

15. **Proposal of the new Rule Book on Organization and Systematization of Human Resources Management Authority**

It has been determined through the audit that the Human Resources Management Authority has made a proposal of the new Rule Book on Organization and Systematization of Employees’ Posts, that predicts 34 working posts, for conducting its activities.

The audit has shown that the Human Resources Management Authority employees 21 civil servants and state employees, for undefined period of time and 6 under service contracts.

- SAI proposes that the Human Resources Management Authority further considers and defines the proposed act on new systematization.

7.1. **Organization of financial-accounting tasks**

The audit has shown that all financial-accounting tasks in the Human Resources Management Authority are performed by one person only. In addition to the said tasks this person is also responsible for verifying payment request and it also performs tasks of the Chief Administrative Officer.

The surveillance and control function of regularity and performance of duties and obligations has not been established, i.e. the principle of separation of duties has not been respected, since one person is conducting several incompatible tasks.

- SAI recommends that the accounting function receives more attention, that there is complete surveillance and control in part of financial and accounting jobs, and that the necessary separation of duties with the aim to organize efficient and up-to-date accounting is organized. The separation of duties is possible to be conducted in a way that within the existing number of employees the jobs will be rearranged, and if this is not possible than new post needs to be systematized.

16. **Recording property**

The audit has shown that EAR in cooperation with the Human Resources Management Authority has invited an international tender for equipping KIS.
The total value of equipment procured based on tender amounts about **300,000.00€**.

The Human Resources Management Authority has recorded the said equipment in its business books based on invoices that the supplier has delivered to the European Agency for Reconstruction. Accounting documents based on which it could be determined that the equipment was procured by donor, do not exist, which is not in accordance with legal provisions and International Accounting Standards.

This fact proves that confidential data on Montenegrin human resources are recorded and kept in the equipment that is not formally owned by the Human Resources Management Authority.

- **SAI recommends that the Human Resources Management Authority should procure a valid document that would clearly define the ownership of the Human Resources Management Authority over the said property.**

### III CONCLUSION

**Human Resources Management Authority as its main task has set provision of conditions for modern management of human resources in state administration and their permanent development in accordance with the most important European standards in this area.**

**Summarizing the main results after the performance audit in the Human Resources Management Authority based on determined facts, it can be concluded that a large step forward has been made in reform of human resources system, and that the key elements for improvement of normative framework are in place.**

**Although this is a small institution still in development phases, the audit has shown that the Human Resources Management Authority has made noticeable results in its performance, and it could be determined that the Human Resources Management Authority is on a good way to fulfill the aim set by a legislator, while recommendations provided within this report shall only further improve the work of this auditee.**
SUBMISSION

FROM THE AUDIT REPORT ON ANNUAL FINANCIAL STATEMENTS

OF THE OMBUDSMAN

FOR YEAR 2008

Type of audit: General audit
Auditee: Ombudsman
Subject of audit: Annual Financial Statements for year 2008
Audit duration: 30 working days
Auditing team: Dušan Mrdović and Dragiša Pešić
I INTRODUCTION

1. THE AUDITEE

Ombudsman protects rights and freedoms of people guaranteed by the Constitution, the law, ratified international agreements on human rights and generally accepted rules of the international law, when they are violated by an act, activity or inactivity of the state authorities, local governances or public services and other bearers of public authorities (hereinafter: authorities).

Ombudsman is autonomous and independent in performing its duties.

Ombudsman conducts its duties based on the Constitution and law and follows the principles of justice and rightfulness.

The Parliament of Montenegro (hereinafter: Parliament) elects the Ombudsman on proposal of the competent committees of the Parliament, with majority votes of members of the parliament.

The Ombudsman organizes Expert Service for conducting expert and administrative tasks. The Expert Service is managed by a Secretary. The Secretary is appointed and dissolved of duty by the Ombudsman.

Expert Service’s employees fall under the law on civil servants.

2. SUBJECT OF THE AUDIT

Subject of the audit are Annual Financial Statements for 2008 of the Ombudsman, with special emphasis on organization of the audited entity (function of the internal control in the management system and management, as well as functioning of the IT system).

The purpose of this audit is to question regularity of operations, which means examination of financial transactions and decisions about revenues and expenses, to determine whether related transactions have been performed in accordance with the law, other regulations, competences and for other planned purposes.

3. TYPE OF THE AUDIT

The State Audit Institution has performed general audit, which includes comprehensive insight into the financial management of the audited entity on December 31st, 2008. The audit is not limiting other types of the audit if this proves to be necessary.
II  FINAL FINDINGS, ASSESSMENTS AND RECOMMENDATIONS

With the overview of the audit results after the Audit Report on Annual Financial Statements of the Ombudsman for 2008 has been made and after the submissions of the statement on the subject report by the auditee (no. 03-261 as of April 16th, 2009), the competent Board for performing this audit at the session held on April 24th, 2009 has adopted the Final Report on auditing on annual financial statements of Ombudsman for 2008, and it has passed the following

OPINION WITH PROPOSAL OF MEASURES AND RECOMMENDATIONS

It has been determined with the audit that there are no significantly important misstatements or significant discrepancies in the officially presented financial reports, or significant violations of legal provisions that arrange organization and activities of the Ombudsman. Financial transactions are accompanied with adequate documentation based on which financial statements have been made.

In addition to the previously provided opinion we believe it is necessary that we point out those elements that are included in the overview of irregularities and given recommendations of the Board of Sector IV authorized for this audit, and that can significantly improve the efficiency and quality of work of the Ombudsman in the forthcoming period.

In accordance with the notes and determined irregularities, we propose measures and recommendations that are intended for strengthening of the position and improvement of work of the audited entity, which could be beneficial in future work.

OVERVIEW OF DETERMINED DEFICIENCIES AND GIVEN RECOMMENDATIONS

The audit has shown that the Ombudsman does not have an implemented program and plan of work for 2008 and that it is operating without adopted internal rule books that would regulate the consumption of fuel, height of costs for fixed-line and mobile phones, representation costs, business trips and so on, which is of significance for the establishment of internal control system.

- SAI recommends that the Ombudsman at the end of the financial year adopts a plan and program of work for the following year, as well as to develop an internal act that would regulate consumption of fuel, phone, representations, business trips and other fees.

The overview of the personal file of the Secretary of Expert Service has shown that the Secretary was appointed based on Decision of Ombudsman No. 02-001/03-2 as of November 3rd, 2003. The audit has shown that the mentioned decision or the Law on Ombudsman do not precisely define the mandate of the Secretary. Provisions of articles 31-35 of the Law on Civil Servants and State Employees say that the managing personnel is appointed for the period of 5 years and that after that period they can be re-appointed.
The State Audit Institution recommends to Ombudsman that it appoints Secretary of Expert Service in line with the provisions of the Law on Civil Servants and State Employees until changes or amendments to the Law on Ombudsman have been made, that would define mandate for appointment of the same.

The Ombudsman has to establish an organized accounting as is prescribed by accounting standards and positive rules. Namely, it has been determined that the surveillance and control function in performance of duties and obligations of officials has not been established, so the principle of separation of duties has not been fulfilled, since one person is conducting several incompatible jobs (such as liquidation, maintenance and recording of cash-in-hand, etc.). It has also been determined that the recording of financial reports is not made in electronic form but by hand.

SAI recommends that the accounting function is paid more attention, that a complete surveillance and control in part of financial and accounting system is established, and that a necessary separation of duties for organization of efficient and up-to-date accounting is conducted. Separation of duties is possible to be conducted in a way that employees in the office will be reappointed to other posts, and if this is not possible new position needs to be systematized. It is also recommended that the Ombudsman procures software for financial-accounting tasks.

The audit has shown that non-earmarked funds for transport to employees in Ombudsman have been paid from item - energy costs, according to decision No. 638/08 as of December 3rd, 2008 amounting 2,755.00€.

SAI recommends to the Ombudsman to use budget funds in accordance with the Budget Law and Rule Book on Consistent Accounts' Classification for the State Budget, Extra-Budgetary Funds and Municipal Budgets, in the amount and for the purposes earmarked by the budget.

The audit has shown that the Ombudsman pays to its employees for mobile phone costs amounts higher than allowed limits, specified by the Decision and individual solutions, as well as that the payment of these bills is made at accounts of commercial banks and not to the provider of services.

SAI recommends to the Ombudsman that the payments based on mobile phone costs are deposited exclusively to bank accounts of providers of services and not to the commercial bank account of employees, as well as that the employees need to respect limits predicted by the Decision.

The control of the cash-in-hand has shown that in individual cases, the calculation of daily allowances for business trips is not accordant with the Rule Book on Fees and Other Remuneration to the Civil Servants and State Employees (“Official Gazette of MNE”, No. 24/05...70/06) in part of the number of calculated daily allowances and the accompanying percentage ratio of daily allowance.
• The State Audit Institution recommends to the Ombudsman to calculate and pay daily allowances for business trips in accordance with the Rule Book on Fees and Other Remunerations to Civil Servants and State Employees ("Official Gazette of MNE", No.24/05…70/06).

All acquisitions of goods and services have been made through direct agreement, although the audit has shown that the acquisition of office materiel needed to be conducted with shopping method.

Procurement of goods and services is contracted with mainly the same suppliers that have been supplying the office in previous years.

The value of procured goods and services for the fiscal year amounts 50,229.95€.

The audit has shown that while purchasing goods and service provisions of the Law on Public Procurements have not been respected since public procurements are not conducted in a transparent way as stipulated by valid regulations.

• SAI recommends to the Ombudsman to perform procurements of goods and services in accordance with the provisions of the Law on Public Procurements with the aim to transparently and lawfully uses public funds.
SUBMISSION

FROM THE AUDIT REPORT ON ANNUAL FINANCIAL STATEMENTS
OF THE MINISTRY OF INTERIOR AFFAIRS AND PUBLIC ADMINISTRATION
FOR YEAR 2008

Type of audit: General audit
Auditee: Ministry of Interior Affairs and Public Administration
Subject of audit: Annual Financial Statements for year 2008
Audit duration: 45 working days
Auditing team: Dušan Mrdović and Miroslav Ivanišević
I INTRODUCTION

1. AUDITEE

The public administration affairs determined by the law and regulations adopted based on the law are performed by ministries in Montenegro. They execute laws and other regulations and general acts of the Parliament of Montenegro and the Government, as well as general acts of the President of the State; they solve administrative affairs; supervise performance of duties and so on. Interior affairs of the public administration are performed by the Ministry of Interior Affairs and Public Administration.

The Ministry of Interior Affairs and Public Administration has gone through significant changes as far as organization and competences are concerned, which is a consequence of the legislation in area of interior affairs, that has created normative basis to separate police affairs from the Ministry to an independent body – Police Directorate. In addition, the Ministry has also separated Secret Service and formed a National Security Agency.

The Ministry has kept normative, developmental and control-supervising role in area of police work and activities, for which purpose a Sector for defense-safety preparation and surveillance has been formed. In addition, it has kept authorities in area of internal administration affairs (citizenship, IDs, registration of vehicles and drivers, weapons, asylum, migrations and so on), for which a Sector for Internal Administrative Affairs has been formed. The competences of the Ministry expanded to the area of public administration, local self-governments and emergencies and civil safety, which also resulted in formation of adequate sectors.

The Ministry of Interior Affairs and Public Administration is now conducting administrative functions in five administrative areas, as follows: defense-safety preparation and surveillance of the police, sector of administrative internal affairs, emergencies and civil safety, public administration and sector of local self-governments.

2. SUBJECT OF THE AUDIT

Subject of the audit are Annual Financial Statements of the Ministry of Interior Affairs and Public Administration for 2008, and harmonization of operations of the Ministry of Interior Affairs and Public Administration with legislation and other regulations.

The audit has included field audit and control of financial statements, which presupposes whether the same are:

- made in accordance with legislation and
- whether they reflect the reliable and objective review of balance at the end of the year and operations during the year.
3. **TYPE OF THE AUDIT**

   The State Audit Institution shall perform general audit that includes comprehensive overview of financial management of the audited entity with the balance on December 31st, 2008. The audit is not limiting performance of other types of the audit if this deems to be necessary.

4. **FINAL FINDINGS, ASSESSMENTS AND RECOMMENDATIONS**

   Pursuant to determined facts and statements made by the auditee – Ministry of Interior Affairs and Public Administration (No. 01-2247/01 as of July 20th, 2009) about the report of SAI (No. 40113-02-39/10 as of July 18th, 2008), and pursuant to article 48 of the Rule Book on State Audit Institution, the competent Board comprising of Dušan Mrdović (Manager of the Board) and Miroslav Ivanišević – President of the Senate (member of the Board), at the session held on July 28th, 2009, has adopted the FINAL Report on audit of financial statements of the Ministry of Interior Affairs and Public Administration for 2008, with following final assessments, findings and recommendations.

5. **Overview of determined irregularities and given recommendations**

   Pursuant to the Decree of the Government on Changes and Amendments of the Rule Book on Organization and the Way of Work of Public Administration ("Official Gazette of MNE", No.54/04, 78/04, 6/05, 61/05, 6/06, 32/06, 42/06, 56/06, 60/06 and 72/06) the separation of former Ministry of Interior Affairs has been conducted in following sectors:

   - Ministry of Interior Affairs and Public Administration,
   - Police Directorate,
   - National Safety Agency
   - Police Academy.

   According to the said Decision, the Ministry and the authorities have been obliged to take over employees on the day the same has been enacted and to divide property, accounts receivable and liabilities within 30 days.

   The Ministry of Interior Affairs and Public Administration with the Decision No. 051/08-12217 as of October 27th, 2008, has appointed expert team for division of property, rights and obligations on all basis between the said units. The deadline for division of property, rights and obligations (elaboration of Division Balance) in accordance with the Decision is 90 days, which shows that the Ministry of Interior Affairs and Public Administration has not respected deadline prescribed by the Rule Book predicted for division of property, rights and obligations.

   With the audit conducted in the Ministry of Interior Affairs and Public Administration it has been determined that the procedures and activities that need to be conducted by authorized persons of the newly formed units, in cooperation with the commission formed to perform the practical part of the division balance in the former Ministry, have not been conducted. As a consequence, the division balance is being late and it needed to be completed by March 2007.
The State Audit Institution recommends to the Ministry of Interior Affairs and Public Administration to conduct division balance and question the reasons why procedures and actions that have preceded the development of division balance have been late with, as well as to make entries in its account books based on the division balances, as follows: of non financial assets (buildings, land, equipment, small inventory, reserves and materials), financial assets, cash in hand and bank accounts, accounts receivable, accounts payable from employees based on housing loans and advance payments, accounts payable to suppliers, outstanding debts for salaries and fees. The procedure of division and recording of the property should be conducted as stipulated by the State Property Law (articles 45 and 66). All listed accounting records should be conducted as opening balances in account books based on the division balance.

The audit has also shown that the Ministry of Interior Affairs and Public Administration is not providing analytical reports of non-financial assets as is stipulated by: IAS for public sector, Property Law, Book of Rules on Consistent Accounts’ Classification for the State Budget, Extra-Budgetary Funds and Municipal Budgets, Book of Rules on Distribution of Tangible and Intangible Assets According to Groups and Methods to Determine Amortizations of Budget and Extra-budgetary Funds and Instructions on State Treasury (which includes records for each asset individually, per type, amount, purchase value, write-off and current values, as well as that every other basic asset has its inventory number). The audit has also shown that the internal entrusting with equipment is not conducted, for the equipment that is provided to individual employees for usage. Employees that have this equipment provided for usage need to be internally encumbered (with reverse).

It has been determined by the audit that the commission for stock taking has also evaluated the assets. The estimate of the value of assets needs to be conducted by an independent authorized estimator.

The audit has shown that there are following irregularities with travel orders that relate to business trips in the country and abroad.

Travel orders are not comprising all important elements defined by the Rule Book on Fees and Other Remunerations to Civil Servants and State Employees (“Official Gazette of MNE”, No. 24/05, 42/05, 70/06), justification of travel orders, and in individual cases it is not conducted in timeline with the deadlines prescribed by the Rule Book.

Justification of transport costs and accommodation services per travel order for business trip in the country, in most cases is done with non-fiscal invoices. The audit has shown that the non-fiscal invoices have been mainly provided by same suppliers. Except for these irregularities, the audit has shown that in individual cases justification of accommodation at business trips is conducted with non-fiscals bills from the city where employee has not been travelling to.
Travel orders for business trips abroad are not accompanied with adequate documentation such as (invitation letter, copy of the airline ticket, decision about business trip abroad, report from the business trip and so on).

Travel orders have been paid with cash-in-hand to the persons who are not employed in the Ministry of Interior Affairs and Public Administration. The said payments relate to the lump sum payments to Russian pilots under the contract number 01-2211/1 as of June 27th 2008, for services provided in total amount of 34,650.00€.

- **The State Audit Institution recommends to the Ministry of Interior Affairs and Public Administration to pay special attention to the validity of documentation that serves as basis to justify costs per travel order for business trips to country and abroad. It is also recommended to the Ministry of Interior Affairs and Public Administration to fill and justify travel orders in accordance with the Rule Book on Fees and Other Remuneration to Civil Servants and State Employees.**

  It has been determined that the Ministry of Interior Affairs and Public Administration does not have Rules of Procedure (internal documents) that would determine the rules and procedures to regulate consumption of fuel, phone, representations, business trips in the country and abroad and similar. Implementation of these documents would have significant impact on the establishment of the efficient system of internal control, with the aim to viably consume public resources.

- **The State Audit Institution recommends to the Ministry of Interior Affairs and Public Administration to elaborate an internal act which would regulate consumption of fuel, phone, representation costs, business trips to the country and abroad. This internal act would determine in detail the rules and procedures for approval and justification of costs under all grounds.**

  The audit has shown that based on the available documentation (overview verified by responsible person), it has been determined that accounts receivable for provided housing loans and apartments paid in installments on December 31st, 2008 amount 1,505,814.80€. Accounts receivable on this basis relate to accounts receivable from earlier years that have been restated in opening balance, while in 2008 33,609.38€ has been paid from housing fund of the Ministry of Interior Affairs and Public Administration according to Decision No. 01-3342/1 as of October 13th, 2008, for the acquisition of apartment granted to the adviser of the Minister as a personnel solution.

  The implementation of housing loans by the Ministry of Interior Affairs and Public Administration is conducted based on the Rule Book on Housing Needs of Civil Servants and State Employees in the Ministry of Interior Affairs and Public Administration and determined rank list for the delivery of the same. The funds have been approved for 20 years with interest rate of 2% at annual level. The amount of the approved loan is decreased by 5% for each service year, 80% the most according to the Decision of the Government of Montenegro that is adopted in line with the Property Law (“Official Gazette of MNE”, No 21/95).

  It has been determined through the audit that the Ministry of Interior Affairs and Public Administration does not provide for analytic evidence of receivables for housing loans.
The State Audit Institution recommends to the Ministry of Interior Affairs and Public Administration to provide analytical records of the accounts receivable for each user of housing loan and the apartment purchased in installments, to harmonize the records with the office competent for the appropriation of housing loans and purchase of apartments, as well as with the office for calculation of salaries that is stopping payments to the employees based on this. It is also recommended to the MIA to comply accounts receivable with legal entities and Pension and Disability Insurance Fund, where former Ministry of Interior Affairs and Public Administration employees work, i.e. who have been retired or they have outstanding debts based on housing loans.
The audit has shown that the Ministry of Interior Affairs and Public Administration has not conducted appointment of employees to predicted working posts based on the Rule Book from 2007.

- **SAI recommends to the Ministry of Interior Affairs and Public Administration to appoint all employees in working posts according to the Rule Book.**

  It has been determined in the audit procedure that the calculation of salaries for employees is conducted in IT Center; the calculation of salaries of 90% employees is based on the Decision made by the Minister of the Ministry of Interior Affairs and Public Administration, and for the remaining civil servants and state employees the calculations are made based on the Decision made by the Ministry of Finance.

- **SAI recommends to the Ministry of Interior Affairs and Public Administration to transfer calculation of salaries to Expert Service of the Ministry of Finance as is stipulated by the Instructions on State Treasury (point 109).**

  It has been determined with the audit that 52% of employees in the Ministry of Interior Affairs and Public Administration out of the total number of employees have right to reduced years of service.

  Since the Ministry of Interior Affairs and Public Administration has gone through significant changes as far as organization and competences are concerned, as well as that the five year deadline to determine working positions, i.e. jobs at which the years of services are insured with increased lasting, as stipulated by article 72 of the Law on Pensions and Special Needs Insurance, the Ministry of Interior Affairs and Public Administration has not conducted the procedure for re-appraisal of the justification of the right to reduced years of service for retirement.

  **12. It is recommended to the Ministry of Interior Affairs and Public Administration to conduct a procedure to re-appraise the justification of employees’ rights on reduced service years for retirement in cooperation with the Pension Fund. It is also recommended to the Ministry of Interior Affairs and Public Administration to determine working positions that fulfill conditions for reduced service years for retirement in accordance with the Book of Rules on Internal Organization and Systematization.**

  The audit has shown that the payment of fees to the commission for public procurement procedures has been conducted based on the Minister's Decision. It has also been determined that Ministry of Interior Affairs and Public Administration has not adopted a Rulebook that determines the conditions and criteria on the amounts for work in individual commissions.

- **The State Audit Institution recommends to Ministry of Interior Affairs and Public Administration to adopt an internal document that would define conditions and criteria for the determination of the amount of fees for the work in commissions for public procurements. The amount of fees to members of the commission needs to be determined compared to the salary.**
The audit has shown that the approved limit for consumption of fuel on monthly basis per official vehicle in the Ministry of Interior Affairs and Public Administration has amounted 70 liters up to 1,500 liters, and that there is no adequate evidence on consumption of fuel per vehicle and the kilometers passed.

- **SAI recommends to the Ministry of Interior Affairs and Public Administration to provide adequate records on consumption of fuel per each vehicle and to consider justification of allowed limits for consumption of fuel with the aim to economically consume fuel and decrease costs on this account.**

The audit has shown that based on available documents and tested expenditures per item, the Ministry of Interior Affairs and Public Administration has not recorded and paid expenditures in most cases in line with the Plan of Approved Budget Funds and Rule Book on Consistent Accounts’ Classification for the State Budget, Extra-Budgetary Funds and Municipal Budgets.

- **SAI recommends to the Ministry of Interior Affairs and Public Administration to use budget funds in accordance with the Plan of Approved Budget Funds and Rule Book on Unique Classification of accounts for the Budget of the Republic, Extra-budgetary funds and Municipalities, in the amount and for the purposes earmarked with the budget.**

The audit has also confirmed that the Ministry of Interior Affairs and Public Administration (the administrative interior affairs sector) has been making profit from taxes for physical persons based on registration of vehicles, issuance of citizenship certificates, and issuance of other personal documents (IDs, driving licenses, passports,…). The audit has also shown that the Ministry of Interior Affairs and Public Administration is not keeping proper records on this income, nor is it complying the number of processed cases with the amount of paid taxes against individual types of taxes, and the total harmonization of gross revenues with truly paid revenues recorded in the General Ledger of the Treasury.

It has also been determined that the Ministry of Interior Affairs and Public Administration also generate revenues from providing helicopter services and leasing of land. The revenues made in 2008 amount 297,281.59€. These revenues have been determined based on accounting records that were provided by the Ministry of Interior Affairs and Public Administration. The overview of the General Ledger of the State Treasury has shown that the gross revenues generated by the Ministry of Interior Affairs and Public Administration amount 5,637,422.95€.

13. **The SAI recommends to the Ministry of Interior Affairs and Public Administration to keep efficient system of natural and valuable records on the number of processed cases and income calculated from taxes, per type. It is also recommended that the Ministry of Interior Affairs and Public Administration should bring into line realized revenues on all grounds (monthly or quarterly) with truly charged revenues which have been reported in the General Ledger of the Ministry of Finance and State Treasury. This harmonization would provide for an efficient and reliable control system of the charged revenues and their comprehensiveness. The records need to be formed so that they provide individual and gross amounts realized per type of revenues, payers and amounts in accordance with the records provided by the General Ledger of the Ministry of Finance and Treasury.**
SUBMISSION
FROM THE AUDIT REPORT ON ANNUAL FINANCIAL STATEMENTS
OF THE STATE PROSECUTOR’S OFFICE OF MONTENEGRO
FOR YEAR 2008

Type of audit: General audit
Auditee: State Prosecutor’s Office of Montenegro
Subject of audit: Annual Financial Statements for year 2008
Audit duration: 60 working days
Auditing team: Dušan Mrdović and Branislav Radulović, MA
I  INTRODUCTION

1. AUDITEE

The audited entity is a State Prosecutor’s Office of Montenegro and High Prosecutor’s offices in Bijelo Polje and Podgorica.

The Constitution of Montenegro provisions the State Prosecutor’s Office being an autonomous and independent state authority, that conducts tasks of prosecuting of criminal offenders and other criminal offences that are prosecuted under the official duty, using legal remedies to protect constitutionality and legality; it represents Montenegro in legal-property relations and conducts other businesses as specified by the law.

To perform the function of prosecution of offenders and other punishable acts, the State Prosecutor is authorized to determine and take all necessary measures to disclose criminal and other legally determined punishable acts and their committers, in cooperation with other state authorities.

The State Prosecutor’s Office performs tasks of the Prosecutor’s Administration.

Prosecutor’s Administration performs tasks that provide for regular and timely performance of the State Prosecutor, especially in: internal distribution of tasks, management of IT system, maintenance of records and reports, the work of notary office, archive and financial-material affairs.

The Prosecutor’s Administration is directly subordinate to the Ministry of Justice.

The State Prosecutor’s Office is performing its duties through 13 Basic, two High and a Supreme Prosecutor’s Office, part of which is a Department for Organized Crime and International Cooperation.

In personnel, this function is performed by 13 basic state prosecutors with 41 deputies, two high state prosecutors with 15 deputies and Supreme State Prosecutor of Montenegro with 6 deputies, a Special Prosecutor for Organized Crime and one individual deputy for each special department.

1.1. The Supreme State Prosecutor’s Office

The Supreme State Prosecutor’s Office is acting before the Supreme Court of Montenegro, Appellation Court of Montenegro, Constitutional Court and other state authorities, in accordance with the law.

The Supreme State Prosecutor is representing Montenegro and it agencies, organizations and funds in state’s competence that do not have status of a legal entity in property-legal relations.

The Supreme State Prosecutor is raising demands, in accordance with the law, for the protection of the constitutionality.

The Supreme State Prosecutor’s Office is monitoring the work of the High and Basic State Prosecutor’s Offices, and the Special Prosecutor for Organized Crime also falls under its competences.
Supreme State Prosecutor’s Office is performing other tasks which are not stipulated under the competences of High and Basic State Prosecutor’s Offices.

1.2. High Prosecutor’s Offices

High Prosecutor’s Offices are:

1) High State Prosecutor’s Office in Bijelo Polje, for proceedings before the High Court in Bijelo Polje and Commercial Court in Bijelo Polje,
2) High State Prosecutor’s Office in Podgorica, for proceedings before the High Court in Podgorica and Commercial Court in Podgorica.

High State Prosecutor’s Office is authorized to initiate legal proceedings before High Courts in criminal affairs and in economic offenses before Commercial Courts.

2. FINANCIAL - MATERIAL AFFAIRS

General regulations on financial-material affairs are applied for financial – material affairs of State Prosecutor’s Office using funds generated from the budget. Budget funds of the State Prosecutor’s Office are managed by accounting office of the Supreme State Prosecutor’s Office. The Supreme State Prosecutor’s Office shall determine individual financial-material affairs that may be performed by Basic or High Prosecutor’s Offices.

Budget funds for work of the State Prosecutor’s Office are allocated according to financial plans of the State Prosecutor’s Office, that further decide about allocations of funds individually for each Basic and High Prosecutor’s Office.

The ordering party for financial plan is Supreme State Prosecutor.

3. SUBJECT OF THE AUDIT

Subject of the audit is an audit of the Annual Financial Statements of the State Prosecutor’s Office in Montenegro for 2008, as well as financial-material affairs of High Prosecutor’s Offices in Podgorica and Bijelo Polje.

The present audit included field audit in period from June 25th to July 16th 2009, as well as control of whether financial statements:

- have been made in accordance with legislation and whether
- they reflect the accurate and reliable overview of the balance at the end of the year and operations during the year.
4. TYPE OF THE AUDIT

The Institution has performed general audit, that included comprehensive overview of financial statements of the audited entity on December 31st, 2008.

OPINION WITH PROPOSAL OF MEASURES AND RECOMMENDATIONS

The State Audit Institution, pursuant to article 4 of the Law on State Audit Institution and the Decision of the Board competent for the audit of the Finical Statements of the State Prosecutor’s Office has conducted an audit of the Annual Financial Statements of State Prosecutor’s Office for 2008. The audit has been performed in accordance with the Law on State Audit Institution, Rule Book on Methodology of Work of State Audit Institution, Rules of Procedure of the State Audit Institution and International Auditing Standards for Public Sector (INTOSAI).

Significant transactions that reflect the amounts in financial statements have been audited on sample basis, testing at the same time compliance with the law and regulations, assessment of the internal control system and financial-accounting affairs of the State Prosecutor’s Office of Montenegro. We believe that the audit we have performed is providing a reliable basis for our opinion.

Based on determined facts and statements made by the audited entity – State Prosecutor’s Office of MNE (TU number 639709 as of October 1st, 2009) on the report of SAI (No. 40113-04-38/11 as of September 9th 2009), and pursuant to article 48 of the Rules of Procedure of the State Audit Institution, the competent Board comprising of Dušan Mrdović – member of the Senate (manager of the Board) and Branislav Radulović, MA – member of the Senate (member of the Board), at the session held on October 8th 2009, has adopted the FINAL REPORT on auditing of annual financial statements of the State Prosecutor’s Office of MNE for 2008, and has passed the following:

OPINION

The audit findings show there were no significant misstatements made or any significant deficiencies in the officially presented Financial Statements of the State Prosecutor’s Office for 2008, or any important violations of the legislation pertaining organization and activities of the State Prosecutor’s Office. Financial transactions are accompanied with adequate documentation based on which financial statements have been made.

The State Audit Institution expresses reserve for the financial affairs of the High State Prosecutor’s Office in Bijelo Polje regarding the allocation of funds transferred by the Employment Agency based on the apprentices’ salaries.

Except for the previously expressed opinion, we deem it necessary to outline those elements provided by the overview of stated irregularities and recommendations given by the competent Audit Board, which can significantly improve efficiency and quality of work of the State Prosecutor’s Office of Montenegro in the forthcoming period.
4. OVERVIEW OF DETERMINED DEFICIENCIES AND GIVEN RECOMMENDATIONS

In the auditing procedure, the auditor has determined the following irregularities related to the stock taking and recording of non-financial assets, as follows:

- Stocktaking Commission has not consolidated property inventories of all State Prosecutor’s Offices in line with the Decision on Establishment of Stocktaking Commission,
- The Commission has not recorded the amount of cash-in-hand and liabilities list on December 31st, 2008, although this has been ordered with the Decision on Establishment of the Commission.
- Part of the property is estimated by the Stocktaking Commission.

14. The State Audit Institution recommends to the State Prosecutor’s Office to conduct stock taking of property, liabilities and receivables in line with the regulations that define this area (Law on State Property) and in accordance with the Decision on Establishment of Stocktaking Commission. In addition, SAI recommends to the State Prosecutor’s Office to make an assessment of fixed assets by an independent authorized estimator.

The audit has shown that the State Prosecutor’s Office is not providing analytical reports of non-financial assets as is stipulated by: IAS for public sector, Property Law, Book of Rules on Consistent Accounts’ Classification for the State Budget, Extra-Budgetary Funds and Municipal Budgets, Book of Rules on Distribution of Tangible and Intangible Assets According to Groups and Methods to Determine Amortization of Budget and Extra-budgetary (which includes records for each asset individually, per type, amount, purchase value, written-off and current values).

As the source of data on the available basic assets the Office uses the inventory lists. The balance of basic assets in inventory lists for 2008 has been taken over from 2009 inventory lists.

- The State Audit Institution recommends to the State Prosecutor’s Office to form analytical books of basic assets in which it would record all basic assets with all important elements (inventory number, name of asset, amount, type, purchase value, amortization and current value). The Analytical book of basic assets needs to provide overview of the total intangible assets of the State Prosecutor’s Office of Montenegro, according to the Rule Book on Internal Affairs of the State Prosecutor’s Office.

During the audit of the State Prosecutor’s Office it has been determined that there are certain weaknesses in the functioning of the internal control system, as far as implementation of regulations defining public procurements is concerned (the officer for public procurement has not been appointed, the plan of public procurements for 2008 has not been made), the implementation of accounting standards and principles (analytical records of basic assets is not provided, OPD1 forms are not delivered to the Tax Administration), the Internal Act on Systematization and Organization of Employees’ Posts, does not stipulate the working position with high education in Accounting and Financing Department, as well as in the part related to the important vacancies in General Affairs Department that are stipulated by Rule Book on Internal Organization and Systematization of State Prosecutor’s Office.
It has been determined that the State Prosecutor’s Office did not adopt a Rules of Procedure (internal documents) that would determine the rules and procedures to regulate consumption of fuel, phone, representations, business trips in the country and abroad and similar. Implementation of these documents would have significant impact on the establishment of the efficient system of internal control, with the aim to viably consume public resources.

- **The State Audit Institution recommends to the State Prosecutor’s Office to set adequate level of internal control as far as consistent application of legal procedures in public procurements, accounting standards and principles is concerned, as well as to conduct adequate activities to fill vacant positions in significant posts predicted by Rule Book on Internal Organization and Systematization in General Affairs and Accounting Affairs Department. In addition, SAI recommends that the State Prosecutor’s Office to adopt acts (internal documents) that would define rules and procedures to regulate consumption of fuel, phone, representations, business trips in the country and abroad and similar.**

The audit findings show that for the vacancies - Manager of Notary Department in Supreme and High Prosecutor’s Offices with temporary decision from 2008, personnel with high school education was appointed, which is not accordant with the Rule Book that prescribes that these positions demand high education.

- **The State Audit Institution recommends to the State Prosecutor’s Office to appoint people at positions for which they fulfill prescribed general and specific conditions, according to the Rule Book on Internal Organization and Systematization.**

It has been determined through the audit that the audited entity has not been drafting and submitting to tax authorities monthly reports on taxes calculated and contributions for personal income of employees (OPD1 Form) which is not in accordance with the Law on Taxation applied to the Physical Persons’ Income (»Official Gazette of RoM« Nos. 65/01…04/07) and article 8 of the Rule Book on Calculating and Paying Taxes and Contributions for Personal Income Based on Employment (“Official Gazette of MNE”, No. 45/08).

- **The State Audit Institution recommends to the State Prosecutor to maintain and submit monthly reports on taxes and contributions for personal income of employees (OPD1 Form) to tax authorities in line with the Law on Taxation applied to the Physical Persons’ Income ("Official Gazette of RoM", No. 65/01...04/07) and article 8 of the Rule Book on Calculating and Paying Taxes and Contributions for Personal Income Based on Employment ("Official Gazette of MNE", No. 45/08).**

It has been determined through the audit that the State Prosecutor’s Office in 2008 has paid the amount of 56,400.00€ as awards to civil servants and state employees (400.00€ for 141 state employee), in line with the Decision on Awards to Civil Servants and State Employee of the Supreme State Prosecutor TU.R number 2210/08 as of December 25th, 2008, as stipulated by article 5 item 1 of the Rule Book on Type of Award and Procedure for its Provision to Civil Servants and State Employees (“Official Gazette of MNE”, No. 27/04).
For the amount paid based on awards to employees the State Prosecutor's Office has not calculated taxes and contributions.

- **The State Audit Institution recommends to the State Prosecutor’s Office to conduct calculations of taxes and contributions for payments based on awards to employees in line with the Law on Taxation applied to the Physical Persons' Income (“Official Gazette of MNE”, No. 65/01...04/07) and article 8 of the Rule Book on Calculating and Paying Taxes and Contributions for Personal Income Based on Employment (“Official Gazette of MNE”, No. 45/08).**

With the overview of accounting documentation it has been determined that the State Prosecutor’s Office has paid fees for the part of rental costs for apartments amounting three lowest prices of work, in accordance with article 9 of the Law on Salaries and other Remunerations to Bearers of Judicial and Other Functions. The fees have been paid to 13 prosecutors and deputy prosecutors in the amount of 165.00€, totaling 23,274.99€. It has been determined also that from this item payment of support to four employees has been made amounting 1,630.00€. These payments have been made based on the decision of the Supreme State Prosecutor and not based on the Decision on Execution of Rights pertaining to article 10 of the said Law.

- **The State Audit Institution recommends to the State Prosecutor’s Office to pay part of the costs of rental of the apartments based on the Decision on Execution of Rights for Compensation of Part of the Costs for Rental of Apartments, in line with the article 10 of the Law on Salaries and Other Income of Bearers of Judicial and Other Functions (“Official Gazette of MNE”, No. 36/07 and 53/07).**

The audit findings show that the awards for work in Prosecutor’s Council for Chairman amount 600.00€, and for members and Secretary 500.00€ a month, as of September 1, 2008. These awards up to the said date were amounting 110.00€ for the Chairman and members and 55.00€ for the Secretary, so that in 2008 on behalf of these awards the Chairman of the Prosecutor’s Council was paid 3,280€, each member 2,880€ and the Secretary 2,040.00€.

The State Auditor was not able to determine the criteria for defining the amounts of awards to members of Prosecutor's Council, since these were not precisely defined by the Rule Book on Work of Prosecutor’s Council that determines the rights to get these awards, nor with any other internal act.

- **The State Audit Institution recommends to the State Prosecutor’s Office that instead of lump sum payment of monthly awards for the work of the Chairman, Secretary and members of the Prosecutor's Council, determines the criteria for defining amounts for the said awards within the Rule Book.**

It has been determined through the audit, based on available documentation and tested expenditures on all items, that the State Prosecutor’s Office is keeping records and paying expenditures in most cases opposite to the Plan of Approved Budget Funds and Rule Book on Consistent Accounts’ Classification for the State Budget, Extra-Budgetary Funds and Municipal Budgets.

- **The State Audit Institution recommends to the State Prosecutor’s Office to use budget funds in accordance with the Plan of Approved Budget Funds and Rule Book on Consistent Accounts’ Classification for the State Budget, Extra-Budgetary Funds and Municipal Budgets.**
It has been determined through the audit that the State Prosecutor's Office has not appointed the officer for public procurements, it has not respected the obligation to adopt public procurements plan for 2008, in line with article 27 of the Law on Public Procurements. During 2008 only one public procurement procedure has been conducted (open public procurement procedure), based on which supplier contract with Ljetopis Automotive D.O.O for purchase of two cars, with total value of 48,750.00€, has been inked.

It has also been determined that the State Prosecutor’s Office in 2008 has procured goods and services amounting 156,938.00€ without conducted procedure of public procurements from following suppliers:

- Grafo Crna Gora amounting 41,698.02€,
- Gorbis D.O.O. amounting 33,658.72€
- T-mobile amounting 58,931.72€,
- UTIP Crna Gora amounting 17,035.00€.

• The State Audit Institution recommends to the State Prosecutor’s Office to appoint officer for public procurements in line with the Law on Public Procurements, article 30; to adopt a Public Procurement Plan by the end of the current year for the forthcoming year as is stipulated by article 27 of the Law, and to procure goods and services in accordance with the Law on Public Procurements.

The audit has shown that during 2008, at the bank account of High State Prosecutor’s Office, an amount of 8,518.23€ has been paid by the Employment Agency for refunding of net salaries of apprentices.

It has also been determined that the High State Prosecutor’s Office in Bijelo Polje has not delivered to the accounting department in Supreme State Prosecutor’s Office a report on incomings and outflows of funds generated by the Employment Agency in 2008. The funds allocated as refunding from the Employment Agency need to be paid at the consolidated account of the State Treasury, and the same should be used as appropriated.

• The State Audit Institution recommends to the State Prosecutor’s Office to survey and control operations of the High Prosecutor’s Office in Bijelo Polje as far as expenditures of funds generated at bank accounts are concerned, and demand from the same to submit reports to the accounting department of the Supreme State Prosecutor’s Office, about incomings and payments from the bank account. It is also recommended that the funds provided as refunding of salaries for apprentices paid by the Employment Agency are transferred to the Consolidated Account of State Treasury, and not to the bank account of the High State Prosecutor’s Office, in accordance with the Instructions on State Treasury.
SUBMISSION

FROM THE AUDIT REPORT ON ANNUAL FINANCIAL STATEMENTS

OF RAILWAYS OF MONTENEGRO JSC

FOR YEAR 2007

Type of audit: General audit
Auditee: Railways of Montenegro
Subject of audit: Annual Financial Statements for year 2007
Audit duration: 90 working days
Auditing team: Dragiša Pešić and Miroslav Ivanišević
1. OPINION

The State Audit Institution has performed audit of the financial statements of Railways of Montenegro for year 2007 in accordance with the Work Plan for 2007.

The audit of the financial statements of Railways of Montenegro is examining the reliability of financial statements and harmonization of operations with legal and other regulations.

Management of the company Railways of Montenegro is responsible for financial statements subject to the audit.

Our responsibility is to express an opinion on financial statements on operations in 2007 based on the audit we performed.

The audit was performed based on the Law on State Audit Institution, Rules of Procedure of State Audit Institution, Instructions on SAI, and in accordance with INTOSAI auditing standards.

INTOSAI standards require that that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any significant material misstatement, and that the business is harmonized with law and other regulations and the funds available and managed by the Railways are used in a rational way.

The determined omissions and misstatements in the work, noted in the Audit Report provide for issuance of reserve.

- The company is not abiding by the provisions of the Rule Book on way of preparation, drafting and submitting of the financial statements of regulatory bodies, legal persons, limited liability companies, and joint stocks in which state or municipality holds majority stake (“Official Gazette of the RMNE”, No. 12/2008)

- The system of internal control has not been established

- Costs and revenues are not adequately recorded against the place they appear.

- The company has not harmonized its normative acts with the Law on Railways.

- The company has not abided by the rules of the Company Law in part related to the restructuring – division of the Company, or performed processing of the decisions made by the Extraordinary and Ordinary Assembly with CRCC, KOV and CDA.

- The company does not have adequately established property inventories.

- Decisions of the Shareholders Assembly from 2004 and 2005 about the harmonization of value of share capital with CDA are not processed.
• The Company has not conducted necessary measures to remove irregularities in business and comply with legal procedures, despite of several warnings and recommendations of the Commercial audit provided in reports from 2002 to 2008 and suggestions and recommendations of the main republic inspectorate for railway transport.

• The amounts of stated losses, court proceedings and loan commitments may influence further functioning of the Company as far as continuity of business is concerned.

• Delays in the adoption of normative sublegal acts have negative influence to the Company’s business.

• The decision on regulation of the status of revaluation reserves was not harmonized with the IAS and the Law on Accounting and Auditing.

• While contracting loans the Company has not abided by legal provision stipulating prior approval of the Government.

• **GENERAL INFORMATION ON AUDITED ENTITY**

  Joint stock company Railways of Montenegro was operating as public enterprise until January 31, 2002. With the ownership transformation and status changes the Company was registered as the joint stock company Railways of Montenegro.

  In accordance with the Company Law the Company has been filed with the registry of the Commercial Court in Podgorica as Joint Stock Company Railways of Montenegro on July 26th, 2002 (entry number 4-0000269/001).

  The primary activity of the Company defined by the Statute is transport of passengers and freight transport at national and international lines, train freight, maintenance and reconstruction of vehicles, as well as maintenance, reconstruction and modernization, planning and development of railway infrastructure.

  The representative office is in Podgorica, Trg Golootockih zrtava 13.

  On the day financial statements are disclosed, December 31st, 2007 the Company was employing 1,961 people.

• **Organization, employees and normative organization of the Railways**

  The Railways of Montenegro according to the Rule Book on Organization has performed following business activities in 2007:

  - Strategic management and development of the system of railway transport in Montenegro,
  - Management of infrastructure (development and maintenance) through independent Company “Railways of Montenegro – Infrastructure LLC”,
  - Management of transport of freight and passengers through independent company Railways of Montenegro – Transport LLC,
  - Other functions are common for both independent companies.
Rule Book on Organization and Systematization of Employees’ Posts that is applied as of February 1\textsuperscript{st}, 2007, systematizes 1,848 posts.
The number of employees on December 31st, 2007:

- For indefinite time 1,668
- Without appointment 176
- Apprentices 32
- 72 short-term employees

To stimulate voluntary leave from the Company, the Board of Directors of the Railways of Montenegro JSC – Podgorica has reached decision an Agreement on termination of the employment with severance pay. On the same basis, the employment relations with 55 people were terminated with severance pay. Pursuant to provisions of the Labor Law (“Official Gazette of MNE”, No. 43/2003), and in accordance with the Program of introduction of technological, economic and structural changes as of October 31st, 2006, the Board of Directors of Railways of Montenegro JSC – Podgorica in the middle of 2007 has adopted a Program of Exercising the Rights of Redundant Employees. The Program presupposes the decrease in the number of employees by 136 people.

The documents – information and analysis of operations of the Railways show that there are problems with stuff in all levels of the work process. In some services there are no even minimum necessary personnel for performing work. The age structure is inadequate; engineers are permanently unsatisfied with status and they leave. There is no response to the contest of the Railways for scholarships to technical personnel of middle, higher and high level.

The human resources state in the Railways, especially safety aspects and potential economic damages demand for the urgent measures from all – management of the Railways, employees, Directorate of Transport and other subjects.

The Law on Railways of Montenegro has been enacted in March 2004. The Law defines the following issues: management of railway infrastructure and transport in railways.

The transitory and final provisions of the Law define that the subordinate legislation predicted by the Law will be adopted within six months from the day this Law is enacted and that the Railways of Montenegro will harmonize its organization until the day this Law is implemented, i.e. until January 1st, 2005, when it was enacted.

According to available information not all predicted sublegal acts have been adopted, and the Railways has not harmonized its business and organization with the law.

One of the reasons why there are problems in the Railways’ operations is, as the Company emphasized, the inert relation of the competent Ministry about these issues.

- PREVIOUS AUDITS

The Audit Report for 2007 which was expressed with a reserve again emphasizes the way the supplies are recorded. It is once again stated as far as property is concerned that “the Company is not possessing adequate documentation on the ownership”.

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The matter of accumulated loss amounting EUR104.5m is outlined from the aspect of materially significant uncertainties that does not provide a reasonable assurance that the Company is capable of continuing performing its business in accordance with the continuity principle.

The audit of the financial statements from 2002 to 2008 has been conducted by auditing company Deloitte&Touche. The same auditing company was elected by the decision of the Extraordinary Assembly to conduct audit of financial statements of newly formed Joint Stock Company for 2008. International standards demand that the auditor is changed after three or four years.

- **FINANCIAL STATEMENTS**

  The Railways has not delivered to the Ministry of Finance or State Audit Institution financial statements in accordance with the Rule Book on way of preparation, drafting and submitting of the financial statements of regulatory bodies, legal persons, limited liability companies, and joint stocks in which state or municipality holds majority stake (“Official Gazette of the RMNE”, No.12/2008), that regulate the way annual financial statements are prepared, drafted and submitted. The lack of the indices table represented a limitation for the auditor to express some opinions and provide quality assessments of the business of the Company in 2007.

- **ACCOUNTING POLICIES AND REPORTING SYSTEM**

  Rule book on way of preparation, drafting and submitting of the financial statements of regulatory bodies, legal persons, limited liability companies, and joint stocks in which state or municipality holds majority stake (“Official Gazette of the RMNE”, No. 12/2008) regulate the way annual financial statements are prepared, drafted and submitted, and stipulate that the statements are delivered to the Ministry of Finance at latest by March 31st of the following year. Except for current four (Balance Sheet, Income Statement, Changes in Equity Statement, Cash Flow Statements) it is predicted that the company delivers forms - table of indicators of business at TIP form.

  The Railways has not delivered the said report and indicators to the Ministry.

  The responsible persons in the Company have not submitted to the state auditors documents about accounting policies.

  The company possesses software for maintaining business records that, according to the statements made by the employees, is rarely used.

  The Company does not have a Rule Book on Accounting and Business Records. In Chart of Accounts – the plan, class 9 was not defined that would record expenditures and performances against the place of appearance.
• **Revenues**

• **Revenues from sale of services**

<table>
<thead>
<tr>
<th>Revenues from passenger transport</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local</td>
<td>1,850,999</td>
<td>1,290,744</td>
<td>1,040,085</td>
</tr>
<tr>
<td>Common</td>
<td>3,680,769</td>
<td>2,897,057</td>
<td></td>
</tr>
<tr>
<td>International</td>
<td>16,557</td>
<td>191,549</td>
<td>4,459,757</td>
</tr>
<tr>
<td>Agreed</td>
<td>236,324</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>5,786,649</td>
<td>4,379,350</td>
<td>5,499,842</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Revenues from freight transport</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Local</td>
<td>2,192,833</td>
<td>2,390,449</td>
<td>2,525,555</td>
</tr>
<tr>
<td>Common</td>
<td>2,922,970</td>
<td>3,385,254</td>
<td></td>
</tr>
<tr>
<td>International</td>
<td>839,924</td>
<td>2,769,776</td>
<td>6,129,426</td>
</tr>
<tr>
<td>Agreed</td>
<td>155,158</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>6,110,885</td>
<td>8,763,431</td>
<td>8,654,981</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Revenues from usage of railway infrastructure by international railways</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>288,718</td>
<td>143,207</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Revenues from services of remount of railway infrastructure owned by third parties</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>406,685</td>
<td>337,402</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other operative revenues</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>373,881</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| **Total** | 12,271,415 | 13,838,184 | 14,635,432 |

Gross revenues realized by passenger and freight transport, as well as other revenues that are realized by the Railways are not enough to cover expenses, that grow faster than revenues.

• **Other business revenues**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10,386,854</td>
<td>9,250,121</td>
<td>8,484,154</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income from charging doubtful receivables</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>116,097</td>
<td>66,732</td>
<td>13,290</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income for sale of equipment</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>112,350</td>
<td>21,638</td>
<td>13,273</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income from lease of buildings</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>566,590</td>
<td>960,290</td>
<td>625,442</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Canceling of reservations for jubilee awards</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>82,459</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income for rental of railway tanks</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>80,560</td>
<td>124,911</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income from decrease of liabilities</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>247,320</td>
<td>52,184</td>
<td>133,308</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income from payment of damage</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>8,325</td>
<td>12,400</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income for restaurants and other sale facilities</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>28,251</td>
<td>6,683</td>
<td>27,579</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income from sale of material</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>234,270</td>
<td>552,181</td>
<td>486,810</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income from returned second hand material</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>95,605</td>
<td>615,266</td>
<td>252,864</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income from decrease of differentiated income in the amount of amortization of donated equipment</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>32,899</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income from amortization of donated equipment</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10,601</td>
<td>19,260</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other operative income</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>339,397</td>
<td>131,234</td>
<td>162,584</td>
</tr>
</tbody>
</table>

| **Total** | 12,226,220 | 11,895,359 | 10,232,203 |

In the last three years the amount allocated from the budget funds for subsidies has decreased. However, the Government has paid Railways’ liabilities amounting 3,800,000€, through conversion of debts to equity. The Government of Montenegro in September 2005 has made a Conclusion to transfer Company’s debts based on the loan provided by the Polish Government amounting 6,200,000.00€ to the Government of Montenegro.
Bearing in mind all the property that the company possesses, revenues from facilities that are not in direct function of transport are also low.

It is necessary to take adequate measures to activate this property to provide for higher income.

- **BUDGET FUNDS**

In 2007 budget funds that are allocated as subsidies are approved at the request of the Transport Directorate and are paid to the Railways based on the submitted and verified state-of-the-art of performed works.

Overview of Budget funds for period 2000-2007

<table>
<thead>
<tr>
<th>Year</th>
<th>Planned</th>
<th>Approved</th>
<th>Implemented works</th>
<th>Charged</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>11,279,610</td>
<td>6,800,182</td>
<td>6,799,847</td>
<td>5,433,120</td>
</tr>
<tr>
<td>2001</td>
<td>18,208,233</td>
<td>7,030,263</td>
<td>6,456,423</td>
<td>6,830,225</td>
</tr>
<tr>
<td>2002</td>
<td>29,036,828</td>
<td>7,160,000</td>
<td>6,599,106</td>
<td>3,499,972</td>
</tr>
<tr>
<td>2003</td>
<td>21,510,526</td>
<td>3,510,000</td>
<td>8,421,317</td>
<td>3,500,000</td>
</tr>
<tr>
<td>2004</td>
<td>14,518,740</td>
<td>14,734,863</td>
<td>9,910,183</td>
<td>5,722,000</td>
</tr>
<tr>
<td>2005</td>
<td>20,114,786</td>
<td>8,438,060</td>
<td>8,438,060</td>
<td>8,438,060</td>
</tr>
<tr>
<td>2006</td>
<td>7,200,000</td>
<td>9,251,121</td>
<td>8,228,000</td>
<td>7,200,000</td>
</tr>
<tr>
<td>2007</td>
<td>7,200,000</td>
<td>7,200,000</td>
<td>8,457,154</td>
<td>8,219,000</td>
</tr>
</tbody>
</table>

Funds from the Budget amounting 8,219,000€ have been spent for the program of maintenance of railway infrastructure in 2007 that has included investments and current maintenance with regulation of transport.

The funds from the Budget are paid to the Railways of Montenegro by the Directorate for Transport, based on annual agreement that is concluded between the Railways and the Directorate according to submitted state-of-the-art.

The control of the expenditure of funds is performed by the Directorate of Transport with monitoring of implementation of performed works. The payment of approved funds is made after the volume of the conducted works and their value is harmonized.

The current way Budget funds are spent is accompanied by specific problems. The Directorate for Transport appears as mediator and controller of expenditure. This is why it is necessary to question current way the funds are spent to achieve more efficiency and provide earmarked expenditure.

- **EXPENDITURES**

- **Expenditures for material and fuel**

Expenditure for material and fuel in 2007 amount 5,649,281.00€, which is 10.67% less compared to 2006.
Costs for electricity amount 2,322,805.00€, which is 10.69% growth compared to 2006.

Costs for fuel in 2007 amount 1,269,226.00€, which is 4.28% reduction compared to 2006.

One of the problems that accompany operations of the Railways is inadequate planning of expenses and revenues, and realistic determination of expenditures from the aspect of possibility to cover them with own income and determine the difference that needs to be subsidized by the State.

The basic aim of the calculation of expenditures and implementation of funds is to create adequate basis of data that will successfully serve as an information basis for all levels of decision making processes.

- **Costs of salaries, and other personal expenses**

  In the last three years there was a significant growth of costs for gross salaries and fees and contributions for salaries (costs of employees and amortization make up 69% of operative expenses), especially if born in mind the fact that accumulated losses amount almost one third of the equity.

  General Assembly has reached a decision in 2005 to pay Chairmen of the Boards of Directors after they cease to perform their functions, the amount of 18 gross salaries while the basis for calculation is the last paid monthly fee - salary in gross amount. Taking in consideration economic possibilities of the Railways and practices of other companies, it is necessary that the General Assembly reconsiders the said Decision.

  The company had outstanding debts for the contributions to salaries, income taxes for physical person, other taxes and contributions totaling 1,474,394€ on December 31st, 2007.

- **PROPERTY RECORDS**

  Representatives of the auditees have not submitted to the auditor an inventory list or other ownership evidence emphasizing that the only property list they have is the one based on which Scientific-Research Center (NICEF) of the Faculty of Economy based in Belgrade has conducted Study on Innovations of Property Estimate in 2003.

  With the insight into the property records of the Railways through the IT system of the Directorate of Property, it has been noticed that in the notes column a number of property has notes on restitution, usurpation, and so on.

  The Stocktaking Commissions in their reports for 2007 have determined that:

  - Some basic assets have not been filed accordingly from the aspect of belonging to other companies.

  - Number of storehouses have not implemented earlier requests for cleaning of the reservoirs and calibration of measurement instruments.

  - For a number of storehouses measurement units used in accounting and those used by a storekeeper are different.
- The Commissions have determined that there are some surpluses or lack of assets caused with inadequate work of the responsible personnel.

- The books are still maintained with the assets that are alienated ten years ago.

- In a number of storehouses the assets are summarized, so that they are recorded double by the Commissions.

- A number of bridges are not recorded as a basic asset.

- A number of storehouses have unidentified and non-appropriated spare parts.

- In a number of facilities some articles while being given from the storehouse are recorded with one measurement unit and when they are returned by the retail sale facility they are recorded with other measurement unit.

- In a number of storehouses while identifying basic assets it has been determined that on the inventory lists of one Company there are assets of some other Company or sector support or vice versa.

- For a number of apartments: the contract about rental has not been made, there are no adequate records in cadastre registries, they are not used in accordance with decisions, they are wrongly recorded in Cadastre registries - other owners are recorded instead of the Railways.

- It has been concluded that there are problems in usage of apartments for official needs. A number of users of apartments are not paying their obligation in accordance with contracts.

- **Basic assets**

  Basic assets on December 31st, 2007 amounted 399,703,749.00€ (purchase value 663,644,041.00€ and correction of value 263,940,292.00€).

  During 2007 the estimate of the basic assets has been recorded.

  The purchase value of basic assets has increased in the amount of 101,760,977.00€, and the correction of value increased for the amount of 45,291,560.00€, while the net effect amounts 56,469,590.00€. Net effect is recorded in revaluation reserves amounting 56,469,590.00€, that have amounted 103,902,229.00€ on December 31st, 2007.

  By the decision about the cover of losses No.5001/4-3, reached during 2008 revaluation reserves have been used for covering accumulated loss amounting 104,508,961.00€. We believe that the cover of the loss is not allowed to be performed this way since this is opposite to IAS 36. The cover of losses can be conducted only with part of realized revaluation reserves as follows:

  - For positive effects of revaluation of property, plants and equipment if in earlier periods revaluation reserves have been stated based on revaluation,

  - The effects of impairment of basic assets if based on concrete basic assets revaluation reserve has been recognized,

  - Realization of impairment and losses if based on concrete basic assets the revaluation reserve has been recognized.
Revaluation reserves may be used to cover losses in the amount of the difference of amortization based on revaluation value and amortization based on purchase value.

10. ONGOING INVESTMENTS

At the account 1420 – ongoing investments on December 31, 2007 the amount of 36,506,652.18€ has been recorded, which relates to: overhaul of railway Podgorica- Nikšić amounting 33,281,716.48€ (91%), overhaul of railway Vrbica-Bijelo Polje amounting 1,134,453.74€ (3.1%), sanitation of tunnel No.161 and 172 of Railways of Montenegro amounting 1,080,723.84€ (2.96%). Advance payments for basic assets amount 413,471.18€ (1.13%) and other facilities amount 596,285.82€ (1.63%).

During the year direct increases amounted 19,785,044.00€ and they relate to: ongoing investments amounting 15,428,304.00€, buildings amounting 801,772.00€ and equipment and other basic assets amounting 3,554,968.00€.

For the “Project of urgent overhaul of infrastructure of the Railways of Montenegro”, EBRD has allocated 15 million euro, and for 2007, 6 million euro have been allocated.

The newly procured equipment is made of:

- Points amounting 911,085.00€ which have been procured in Polish company “Biezanov”. Transactions for import have been related to the contract of the Government of Montenegro and Railways of Montenegro Podgorica (Contract No. PL/001/06/2006) on commodity loan for purchase of points from company “Biezanov”.

- Three locomotives taken on leasing through “Hypo Alpe Adria” amounting 1,257,714.00€ (the price per unit amounts 419,238.00€).

- Supporting lathe acquired from company “Rafament”, amounting 928,650.00€,

- Three loco tractors amounting 413,700.00€,

- Rails purchased from company “Huta” and other procurements.

From ongoing investments transfer for construction facilities has been conducted amounting 1,523,653.00€ and the amount of 671,838.67€ is related to apartments that have been constructed for the needs of the employees of the Company. The apartments have been distributed to employees and now they pay rents until they pay off the same. Amortization is estimated for the apartments.

a. Overhaul of railway Nikšić – Podgorica

The contractual works on overhaul and electrification of railway Nikšić - Podgorica, predict that the rail tracks are completely replaced in open railways and in station, new rails are installed, as well as rail foots, railway equipment and ballast, while concrete channels to drain atmospheric waters shall be developed, part of the work of sanitation of tunnels, complete electrification of the railway, equipment with modern signals and telecommunication devices, as well as adaptation and reconstruction of the station and business facilities in the railway.
The contractor for reconstruction of railway Nikšić – Podgorica was elected at international tender, and in accordance with the conditions of the tender it has been decided to contract services with consortium OHL ZS a.s. and AZD Praha s.r.o. from Check Republic.

The service contract predicts that the conducted works shall amount 47,492,168.37€. Article 5 of the said contract stipulates reserves for additional and subsequent works amounting 5% of the contractual price, i.e. 2,374,608.42€.

Railways of Montenegro JSC – Podgorica according to Framework Agreement, has signed with Check Export Bank four individual agreements for the Contacts for first and second phase of the construction amounting 44.3 million euro. According to the said Contracts the funds have been withdrawn amounting 35.5 million euro on December 31st 2007. The Check Export Bank has been repaid 5.4 million euro through instalments.

Along with December 2007, works that have been conducted amount 30,911,200.59€.

The team engaged for the implementation of the project with the overview of the complete investment and field situation during the performance of works has determined that the allocated funds defined by the contract are not enough to complete works. The following reasons are stated:

- Inadequate technical documentation in individual segments that served for preparation of the contracts,
- Prepared state-of-the-art of the facilities in the railways compared to the period of determination of type of works and bills of quantities and estimated bill of quantities,
- Unpredicted work not envisaged by contract, increased volume of work compared to the amounts defined by the contract,
- Additional requests of local governments and municipalities for new railway crossings,
- Additional expropriations, and so on.

The Government of Montenegro has made a conclusion no. 03-10373 as of December 27th 2007 that additional and subsequent works at railway Nikšić – Podgorica are negotiated with Check Export Bank to provide for additional 11.9 million euro.

**11. ACCOUNTS RECEIVABLE FROM BUSINESS RELATIONS**

Accounts receivable from business relations on December 31st, 2007 amount 5,535,995.00€ and they are related to accounts receivable from:

- related parties 119,598.00
- from buyers in the country 1,373,169.00
- from buyers abroad 1,640,952.00
- accounts receivable from advance payments to suppliers 1,088,888.00
- accounts receivable from state authorities and organizations 2,018,865.00
- (correction of value) (1,519,082.00)
- accounts receivable from “Railways of Serbia” 429,496.00
- accounts receivable from ZJZ 351,105.00
- (correction of value) (148,764.00)
Other short term receivables 181,768.00
Total 5,535,995.00
Accounts receivable from state authorities amount 2,018,865.00€ and they represent accounts receivable from the Ministry of Maritime Affairs and Transport of the Government of Montenegro, which, in accordance with the Proposal on the Way Debts Between the Company and the Government of Montenegro are Resolved, have been recognized in the amount of 6,200,000€ on December 31st, 2005. The said receivables are the part of the Program of financing of maintenance of the railway infrastructure in period 2002-2004, that was not implemented and which was predicted by the Budget for the said period.

In accordance with the above said the Government of Montenegro in September 2005 has made a conclusion by which the obligations of the Company based on the loans provided by the Polish Government amounting 6,200,000€, are transferred to the Government of Montenegro.

The newly procured basic assets are recorded as an increase of equipment and decrease of accounts receivable from other state authorities and organizations so that these receivables on December 31st, 2007 amount 2,018,865.00€.

The receivables in the country on December 31st, 2007 amount 1,373,169.00€. The biggest buyers are Kombinat Aluminijuma Podgorica – 164,979.80€ and Zeljezara Niksic – 414,916.00€.

Receivables from buyers abroad amount 1,640,902.00€ on December 31st, 2007, and they are related to: G-Transport – Hungary amounting 107,928.00€, Remount Railway Sarajevo amounting 212,753.00€ and OHL amounting 199,500.00€.

The accounts receivables based on the advance payments to suppliers on December 31st, 2007 amount 1,088,888.00€, and they relate to Wagon Europ Konsor Kolejowe amounting 94,911.35€, MIN Holding co NIS NIS amounting 576,181.65€ and other suppliers in the country and abroad.

12. EQUITY

In business books of the Company the equity on December 31st, 2007 has amounted 355,278,217.00€. The total number of shares is 23,162,052. The nominal value of a share is 15.3388€.

The ownership structure of the equity, on December 31st, 2007 was:

- The State 14,761,849 shares, i.e. 63.7329%.
- Pensions and Disability Insurance Fund 888,830 shares, i.e. 3.8374%.
- Employment Agency of Montenegro 354,423 shares, i.e. 1.5302%.
- Development Fund of Montenegro 21,360 shares, i.e. 0.0922%.
- Privatization Fund “EUROFOND”, 2,237,810 shares, i.e. 9.6615%
- Privatization Fund “TREND”, 1,396,406 shares, i.e. 6.0289%.
- Privatization Fund “MONETA”, 622,104 shares, i.e. 2.6859%
- Privatization Fund “MIG”, 511,139 shares, i.e. 2.2068%.
- Other shareholders 2,368,131 shares, i.e. 10.2242%.

The scientific-research center of the Faculty of Economics based in Belgrade has conducted in 2007 Study on Innovation of Property Assessment that was previously conducted in 2004.

The result to the study is the estimated purchase value of shares of the Company amounting 626,846,111€, which is 101,760,977€ more than book value of 525,085,133€.
The estimated current value has increased compared to book value for 56,469,591€ and it amounts 363,166,132€.

According to the Decision on cover of accumulated loss no. 5001/4-3 as of July 28th 2008, the loss from business is stated in the amount of 104,508,961€ and it is made of

- accumulated losses from previous years amounting 31,270,274€
- loss based on the impairment of value 73,238,687€.

The said decision defines that the accumulated loss is covered from equity with decrease of nominal value of shares from 15.33€ to 11.83€.

The effect of the estimated value amounts 45,291,387€.

In this way, after the cover of accumulated loss the equity of the Railway amounts 355,278,082.00€.

13. LONG-TERM LOANS

Long-term loans on December 31st 2007 have amounted 48,943,225.00€. Long-term loans that mature up to one year according to recognized liabilities amount 6,426,480.00€.

14. SAFETY OF THE RAILWAY TRANSPORT

In 2007, on railways of Montenegro there were 67 extraordinary events and 21 of them were vehicle accidents and 46 accidents while performing railway transport, including extraordinary events at crossroads and outside. Out of the total number of extraordinary events, because of the mistakes of the Railways there were 27 (40%) events, due to inattention of passenger and third persons 36 (54%), and due to force majore 4 (6%). Out of the mistakes of the Railways, 6 have been made by personal mistakes while performing jobs or 9%, and 21 because of the technical deficiencies in railway equipment or 31%.

In 2007 in railways of the Railways of Montenegro seven (7) people lost lives and three (3) were injured.

- The number of extraordinary events (67) compared to the previous year (56) increased by 11, i.e. 19%.
- The total number of vehicle accidents (21) compared to same period last year (28) has reduced by 25%.
- The total number of accidents (46) compared to the same period year before increased by 100%.

The number of accidents in railways and in crossings and outside of them (from 22 to 26) increased, amounting 18%. The number of accidents while performing railway transport increased (from 34 to 41) by 21%.

Analyses of the causes shows that the number of extraordinary events caused by personal mistakes while conducting service are smaller by 30% and by force majore by 34%. The number of extraordinary events caused by inattention of passengers and third parties has increased (from 32 to 36) by 13% and by technical deficiencies in railway equipment (from 8 to 20) by 150%. The Railways in 2007 has acquired four diesel - electric locomotives produced in 1972.
In 2006 the material damage according to the accounting records of the Company measured by infrastructure and rolling stock amounts about 400,000.00€ caused by extraordinary events, and in 2007 about 200,00.00€.

Inspector for transport on several occasions has warned in written form authorized agencies on numerous problems that accompany the work of the Railway, which have direct or indirect influence to the safety system and quality of transport.

The delays in arrival of trains in the Railways are still present. Last year the average delay per train with express trains amounted over 500 hours.

The number of slow drives increased.

15. PUBLIC PROCUREMENTS

In 2007, Railways of Montenegro, in accordance with the Plan of Public Procurements that was adopted in December 2006 and delivered to the Directorate of Public Procurements, has procured goods, services and works valued 11,310,500€.

Amount of 2,639,000.00€ was planned for the goods, for works 4,705,000.00€ and for services 3,912,500€.

Out of the total planned assets for public procurements, the Infrastructure was allocated 52%, and Transport 40.7%, while other procurements were made for the Administration and support sectors.

In 2007 with shopping system method the following has been procured: goods amounting 17,000€, services amounting 20,000.00€ and works amounting 60,000.00€.

Last year the Company has approved negotiating procedures without previous advertisement of open call in two cases; out of the total number of tenders seven bidders have filed complaints with the Commission for Control of Public Procurements on various basis.

According to the information of the Commission for Control of Public Procurements one tender was annulled and it was ordered to the Railways to repeat the tender.

Certain problems occur in implementation of procurement plan – invitation of tenders. This is mainly due to the fact that specific assets are remounted abroad - Serbia and other countries. In these situations there is a problem with customs recordings, extension of deadlines, and so on. For a number of goods and services urgent procurements are needed. There is a problem of subsequent works and demands for annexing of contacts that have been made after the termination of tender, i.e. during the implementation.

Problems in implementation of planned procurements demand that these issues are solved in cooperation with Directorate for Public Procurements and Customs Administration.

It is necessary to take necessary steps to improve public procurement system bearing in mind the specificity of the Railways.

It is necessary that public procurements are more realistically planned and conditions created for more efficient implementation of tender in all phases. It is especially important to pay attention to implementation of contracts, especially to respect contractual provisions, prices, deadlines, as well as quality of performed works.
16. COURT SETTLEMENTS

16.1 Railway accident in Bioce

Railways of Montenegro – Podgorica, after the accident in Bioce, has paid the amount of EUR100,000.00 in special bank account that was opened by the Government of Montenegro with Crnogorska Komercijalna Banka for support to families of people who lost their lives or were injured in the accident. The Government of Montenegro has opened special account in which over 2,000,000 euro was paid by the Government and other donors to ease the consequences of the accident in Bioce.

According to the Decision of the Board of Directors of Railways of Montenegro - Podgorica, on one-off payment for families of passengers who lost their lives No.300/28-2 as of January 19th 2007, Railways of Montenegro has paid the amount of 94,000.00€ to 47 families of people who lost their lives in the accident.

Railways of Montenegro, as a transporter, according to the Law on Railway Transport Contract has been submitted 133 requests for the settlement of damage outside the court, and four of them have been paid to families of persons who lost their lives in the accident, and 119 requests were made by injured people. The Commission for Compensation of Damage, established by the Decision of the Board of Directors, has considered requests that were submitted up to March 9th, 2007 and decided about the amount for out of court settlements. The total amount of the compensation for damage, for 114 requests for out of court settlements according to Commission’s report amounts 1,249,500.00€. With 34 requesters the condition has been made about out of court settlement (8 request of the families of people who lost lives and 26 request from the injured people) and the same have been realized in the total amount of 401,809.60€.

The total amount that the Railways of Montenegro JSC – Podgorica has paid based on court rulings and out of court settlements to the families of people who lost lives in the accident and those that were injured, amounted 3,357,015.00€ in 2007.

According to information from the legal service, court settlements based on the railway accident in Bioce that are in proceeds, amount about 1.3 million euro.

16.2 Other court settlements

According to the records of the Company there were over 300 court settlements where Railway of Montenegro appears as prosecutor and sued party on December 31st 2007. The responsible persons were not able to define precisely the value of court settlements, but based on information from earlier years, it can be said that it is over one million euro. The company emphasizes that it is difficult to estimate their certainty.

We deem it is necessary to strengthen activities for finalization of court proceedings and use the Settlement Institute and to draw more attention to these issues compared to current state of processing of court proceedings. The special attention needs be paid for the court processing before court in Strasbourg that is related to the rights of employees and former employees to free shares.
17. FINDINGS AND RECOMMENDATIONS

The Board of Sector V comprised of: Dragiša Pešić, Manager – member of Senate and Miroslav Ivanišević, Member and Chairman of the Senate of the SAI, at the session held on October 27th, 2008 has adopted the Draft of the Audit Report on Financial Statements of Railways of Montenegro for year 2007.

In accordance with Rule Book of State Audit Institution the Draft Audit Report has been delivered to the Railways on October 28th, 2008 to provide a statement. Regardless of the verbal and written urgencies, the Railways has not delivered statement about the Draft. At the session of the Board held on December 4th, 2008, the final report has been adopted.

The Board has proposed, in accordance with the Law on State Audit Institution and INTOSAI standards, specific recommendations to the audited entity to improve the business system and eliminate current problems.

- **Recording of property** – For the longer period of time the Company does not have records for intangible assets which has been stated within the audit report of commercial audit, as well as with the Annual Report of Property and Liabilities Stocktaking made by the Central Stocktaking Commission.

  Recommendations:

  - In accordance with legal provisions, especially Law on State Property, the newly formed bodies of the company need to regulate the issue of property inventorying, as well as to reconsider the issues of usurped land, especially in railway area. The activities related to above said need to be implemented in cooperation with state authorities.

  - Implementation of these activities presupposes adoption of the Operative Program of Measures to record usurped land and to accelerate procedures to return the land into the ownership of the Railways.

  - **Safety** - Safety is the most important issue for all structures in the Railways and it demands for permanent attention of the management, all employees, competent state authorities and Company’s bodies.

    Recommendations:

    - Improvement in the level of safety includes constant and numerous measures through implementation of concrete programs in all levels of organization and by the side of all companies.
    - With this in mind, in accordance with the new Law on Transport Safety, a concrete plan of activities needs to be made to strengthen safety elements, with concrete measures, deadlines and bearers, as well as with necessary assets.
    - Amongst the measures, that need to be taken is a measure to make a new crossing in Bar and Virpazar operable, as well as station in Bijelo Polje for safety traffic.

  Legislation – There were no subordinate legislation adopted in 2007 or any other document that is defined by the Law on Railways that was enacted in 2004. The adoption of this legislation is a presumption for normal functioning of railway transport.
Recommendation:

f) **It is necessary to take all activities to adopt all subordinate legislation and other documents important for the functioning of railway transport and to harmonize operations of the Railways with the law.**

g) **Accounting system and policies** - The company has not adopted adequate accounting policies, in accordance with the Law on Accounting and Auditing and International Accounting Standards.

The Company has not made financial statements in accordance with the Rule Book on way of preparation, drafting and submitting of the financial statements of regulatory bodies, legal persons, limited liability companies, and joint stocks in which state or municipality holds majority stake (“Official Gazette of the RMNE”, No. 12/2008) that regulate the way of preparing, drafting and submitting of financial reports.

Recommendation:

h) **The newly formed companies need to apply Rule Book on way of preparation, drafting and submitting of financial statements of regulatory bodies, legal persons, limited liability companies, and joint stocks in which state or municipality holds majority stake (“Official Gazette of the RMNE”, No. 12/2008)**

i) **Boards of Directors in these companies need to adopt documents that are related to accounting policies, system of monitoring of all cash flows in these companies. It is especially important to introduce monitoring system of costs and performances according to the place where they have appeared – class 9.**

j) **Introduction of internal control, internal audit and audit board** – The Company has organized the internal control of safety of railway transport, but it has not organized the functioning of internal control, internal audit and audit aboard.

Recommendation:

- **Problems related to operations as well as positive experiences of similar systems in the surrounding impose the need to introduce system of internal control, internal audit and audit board.**

- **Loans** - While making individual agreements on borrowing, the Company has not respected legal procedures that define it is necessary to obtain approval from the Government before borrowing.

  Recommendation:

  - **The activities that precede the borrowing need to include realistic plans and programs for usage of loans, with constant monitoring of the implementation by the Board of Directors.**

  - **It is necessary to respect legal procedures that define it is a duty to obtain an approval from the Government before taking any loans.**
• **Budget Funds, usage and control** – The existing system of transfer and spending of Budget funds, system of control of usage and earmarked usage of funds is accompanied with certain problems.

**Recommendations:**

• The current system of spending of funds based on subventions from the budget needs to be questioned.

• Planning of the realistic amounts of Budget funds for maintenance of infrastructure and determination of realistic prices for transport of passengers, as well as purposeful usage and control of these funds, demand for the adoption of methodology defined by the Law on Railways.

• **Court proceeding** – A number of court proceedings with high court costs are lasting for a long period of time. Debt relations with Railways of Serbia have not been settled. Court settlements for the railway accident in Biocë are ongoing. A number of employees has initiated a court proceeding before court is Strasbourg.

**Recommendation:**

• All conducted proceedings regarding the number and value need to get adequate attention. It is necessary to establish more active relationship and take measures to resolve these settlements.

14) **The decision of the Shareholders Assembly about the payment of fees to Chairmen of the Boards of Directors** – With the Decision of the Shareholders Assembly from 2005, payment of 18 gross salaries has been decided about after the mandate of the Chairmen of the Boards of Directors expires.

**Recommendations:**

• The decision of the Shareholders Assembly that the Chairmen of the Boards of Directors are paid 18 gross monthly salaries after their mandates complete needs to be reconsidered by the Assembly of the Company.

• **Decision about the election of the members of the Boards of Directors of newly formed companies** – in newly formed Boards of Directors members in companies Infrastructure and Transport are appointed and vice versa.

**Recommendations:**

• To avoid eventual conflict of interest because of the division of activities and division of balance, it is necessary that the Boards of Directors address the Commission for Determination of the Conflict of Interest to interpret these issues.

9. **Independent commercial audit** – Diloitte&Touche has performed audits for seven years.

**Recommendation:**

• International accounting standards stipulate that after three years the new auditor needs to be selected. Since the decision on auditor for 2008 has been made at the Extraordinary Assembly of the company, this issue needs to be considered at the session of the Board of Directors and adequate decision needs to be prepared for the Assembly for 2009.
• Personnel, education, technological surpluses – The Railways lack a number of key stuff, the age structure is not good, there are people who are not appointed at any position, the Program of Technological Surplus is not solved. It is necessary to solve the issue of disabled people.

Recommendations:
• The activities on the elaboration of division balance need to include the problem with technological surplus, as well as disabled people. In those activities contacts with state authorities need to be established.
• It is also necessary to consider the need and possibility to educate personnel with high school. Personnel from Transport Department could be educated in newly opened High Education institution for transport.

• Human Resources Strategy of the Directorate of Transport – Directorate of Transport has a significant role in the functioning of railway traffic, in the Directorate’s sector for railway traffic there are five vacancies (50%) on September 31st, 2007.

Recommendations:
• Directorate of Transport needs to be improved in part related to the filling of vacancies in sector for railway transport.

• Public procurements – The system of public procurements, especially because of the importance of railways and international component (transport with Serbia, overhaul of vehicles abroad), procurement of spare parts, and other goods and services from aboard, as well as the monitoring system of tender implementation – contracted services, are accompanied with specific problems

Recommendations:
11. It is necessary to improve the system of public procurements with more realistic planning, precise defining of prices and quality, establishment of internal control system and monitoring of implementation of contracted services with the respect of the specificity of the railway system.
SUBMISSION

FROM THE REPORT ON CONTROL AUDIT IN MUNICIPALITIES OF
NIKŠIĆ, DANILOVGRAD, ULCINJ, KOLAŠIN AND ROŽAJE

Type of audit: Control audit
Auditee: Municipalities of Nikšić, Danilovgrad, Ulcinj, Kolašin and Rožaje
Subject of audit: Annual Financial Statements for year 2008 in part of implementation of recommendations made by the Audit Report
Audit duration: 20 working days
Auditing team: Dragiša Pešić and Branislav Radulović, MA
I AUDITEES, SCOPE, TYPE AND AIDS OF THE AUDIT, SUBJECT OF THE AUDIT

3. AUDITEES

Audited entities are municipalities of: Nikšić, Ulcinj, Danilovgrad, Kolašin and Rožaje, in which the State Audit Institution has previously conducted audits.

4. Scope of the audit

The control audit includes five municipalities in which the State Audit Institution has performed audits in previous period. The State auditors have examined and controlled implementation of recommendations within audited entities, in accordance with Detailed plan for performing audits.

5. Type and aim of the audit

6. The performed audit had a character of subsequent – control audit.
7. The aim of the audit was to control implementation of recommendations given by the SAI in individual audit reports.

8. Subject of the audit

Subject of the audit was:

- Recommendations contained within the SAI’s audit reports performed in municipalities of: Ulcinj, Danilovgrad, Nikšić, Kolašin and Rožaje, and their implementation.
- Reports on implementation of recommendations,
- Annual Financial Statements on December 31st 2008 and other information of importance for development of the Report.

Within implementation of the Detailed Plan, State Auditors have analyzed adequate documentation in municipalities – treasuries, i.e. Secretariats for economy and finances, which relate to the implementation of recommendations with usage of indices contained within Report on implementations of municipalities’ budgets for 2008.
II DETERMINED FACTS AND RESULTS OF AUDIT

1. Municipality of Nikšić

The State Audit Institution in 2005 has performed audit of the Budget of Municipality of Nikšić for 2004. The Audit Report contained 14 recommendations to remove determined irregularities.

Control audit of implementation of measures has shown that: 11 recommendations were implemented, one recommendation was partly implemented and two recommendations have not been implemented.

Findings and recommendations

The State Audit Institution insists that the authorized municipal bodies take all necessary measures to fully implement unrealized and partly realized recommendations. With this in mind, new recommendations are provided.

- Municipality is not abiding by the rules of article 64 of the Law on Financing of Self Governments that relate to the short-term borrowings and approval by the Government of Montenegro.

Recommendation

12. The State Audit Institution insists on consistent implementation of the Law on Financing of Self Governments and obliges the Municipality to ask for the approval of the Government of Montenegro, while making short-term and long-term borrowings.

- Cultural Institutes in Municipality of Nikšić are not rationally organized. There is a possibility to establish new organizational system and make specific savings in consumption of budget funds and improve their work.

Recommendation

13. The State Audit Institution believes it is necessary to make feasibility study in 2009 and to question the possibility of unifying all cultural institutes in order to harmonize budget consumption of the municipality with realistic possibilities, bearing in mind the economic situation.

- There are no adequate records of municipal property or property that is owned by companies founded by the Municipality.

Recommendation

14. The State Audit Institution recommends that in accordance with legal provisions it is necessary to continue with the activities of recording and entering into books the property that is owned by the Municipality, as well as public enterprises founded by the Municipality.
2. Municipality of Danilovgrad

The State Audit Institution in 2006 has performed audit of the budget of Municipality of Danilovgrad for 2005. The audit report provides 14 recommendations to eliminate determined irregularities.

The control of implementation of recommendations has shown that: 13 recommendations have been implemented and that one recommendation has been partly implemented.

Findings and recommendations

The State Audit Institution insists that the municipal authorities take all necessary measures to fully implement unrealized and partly realized recommendations. With this in mind, new recommendations are provided.

1. Instructions on Treasury adopted in 2005 define all issues related to the accounting monitoring and recording of budget funds. However, accounting records in the Treasury department, except for IT equipment which is in function, are kept by hand also.

Recommendation

- The State Audit Institution believes it is in accordance with given recommendations, legislation and Instructions on Treasuries to train employees as urgently as possible to fully implement treasury operations with usage of IT equipment.

3. Municipality of Ulcinj

The State Audit Institution in 2007 has performed audit of the budget of Municipality of Ulcinj for 2005. The audit report provides 10 recommendations to remove determined irregularities.

The control of implementation of recommendations has shown that: 7 recommendations have been implemented, two recommendations have been partly implemented and one recommendation has not been implemented.

Findings and recommendations

The State Audit Institution insists that the municipal authorities take all necessary measures to fully implement unrealized and partly realized recommendations. With this in mind, new recommendations are provided.

- Activities of recording of municipal property need to be ended in 2009 in accordance with the Law on Property-Legal Relations and other regulations.

Recommendations

- Secretariat for Protection of the Property needs to make better cooperation with the Directorate of Property of Montenegro, as well as Ministry of Finance – Sector for State Property. In addition, it is necessary to, in cooperation with public enterprises, conduct recording of property owned by the municipality as a founder.
It is necessary to take all measures that Secretariat is made capable of performing its legal functions and competences.

- Delays in implementation of the Rule Book on Organization and Systematization cause certain problems in functioning of individual services and bodies.

Recommendation

- To accelerate activities on adoption of the Rule Book on Organization and Systematization of Employees’ Posts, to organize necessary service – department for charging direct income.

- Municipality of Ulcinj failed to ask for the approval of the Government while borrowing, which is predicated by legislation.

Recommendation

- The Municipality needs to respect Law on Financing of Self Governments and ask for approval of the Government while taking loans.

4. Municipality of Kolašin

The State Audit Institution in 2007 has performed audit of the budget of Municipality of Kolašin for 2005. The audit report provides 10 recommendations to remove determined irregularities.

The control of implementation of recommendations has shown that: 7 recommendations have been implemented, two recommendations have been partly implemented and one recommendation has not been implemented.

Findings and recommendations

The State Audit Institution insists that the municipal authorities take all necessary measures to fully implement unrealized and partly realized recommendations. With this in mind, new recommendations are provided.

- Sale of property is an issue deserving the attention of all entities in municipal level.

Recommendation

- While selling the property, it is not necessary to only formally obey provisions of the Law on Public Procurement, Law on Property-Legal Relations and other regulations that stipulate property sales. It is also necessary to make an analysis of feasibility of sales, as well as the program for which the funds will be used. It is also necessary, before sales, to conduct activities to develop and bring urban plans to create conditions stipulated by legal regulations on development and maintenance of space, as well as better valorization of resources.
5. Municipality of Rožaje

The State Audit Institution in 2008 has performed audit of the Budget of Municipality of Rožaje for 2007. The audit report provides 15 recommendations to remove determined irregularities.

The control of implementation of recommendations has shown that: 11 recommendations have been implemented, one recommendation has been partly implemented and three recommendations have not been implemented.

Findings and recommendations

The State Audit Institution insists that the municipal authorities take all necessary measures to fully implement unrealized and partly realized recommendations. With this in mind, new recommendations are provided.

1. The networking with Property Directorate is a precondition for establishment of the adequate records on property and implementation of measures on taxation.

Recommendations

- With the aim to connect to IT network of the Property Directorate, it is necessary to complete activities undertaken in cooperation with GTZ.

2. Forest Directorate – branch unit Rožaje, delivered records on contracts made with concessionaires with the amount and prices per m3, based on which a plan of revenues generated through concessions has been made.

Recommendation

- The municipality needs to establish a complete record on revenues made by concessions, at the level of local governments, and concession in competence of the Government of Montenegro, not only for woods, but for water and other goods.

3. Activities to develop detailed urban plans that would additionally contribute to increases of revenues generated by fees for construction lots, in addition to improvement of spatial development.

Recommendations

- Activities undertaken to elaborate detailed urban plans need to be accelerated to create conditions to abide by the rules of legal provisions on development of space and enable increase of revenues based on fees for construction and development of space.

4. The new Decision on Work of Local Government Authorities is elaborated, as well as Rule Book on Internal Organization and Systematization of Employees’ Posts at the level of local governance.

Recommendation

- With the new Rule Book on Organization and Systematization of Employees’ Posts it is necessary to define works related to the internal control of usage of funds in municipal authorities, as well as funds transferred to the public enterprises founded by the Municipality.
III FINAL FINDINGS

Based on conducted control audit in municipalities and determined facts, and in accordance with the article 48 of the Rule Book on State Audit Institution, the competent Board comprised of Dragiša Pešić, Manager and MA Branislav Radulović, member, at the session held on September 21st, 2009 have considered and determined the Final Report on Control Audit for municipalities of: Nikšić, Danilovgrad, Ulcinj, Kolašin and Rožaje.

The Board, based on performed control and facts submitted by the audited entities and the facts contained within minutes, has estimated:

- In five municipalities, out of 62 recommendations, 50 recommendations made by State Audit Institution have been implemented; six recommendations have been partly implemented.
- Implementation of recommendations with audited entities has improved the work of the local governments, especially in application of the Law on Local Governments and Law on Financing of Local Governments. This contributed to increase of efficiency of individual services of local governments – planning, determination and payment of local revenues. It is estimated that the system of public procurements also improved.

The authorized Board of the State Audit Institution recommends that municipalities in which control audit was performed should fully implement unrealized or partly realized recommendations, and that they inform the State Audit Institution about that by the end of March 2010.
SUBMISSION

FROM THE AUDIT REPORT ON ANNUAL FINANCIAL STATEMENTS
OF THE PUBLIC ENTERPRISE FOR MANAGING COASTAL AREA OF MONTENEGRO

FOR YEAR 2008

Type of audit: General audit
Auditee: Public Enterprise for Managing Coastal Area of Montenegro
Subject of audit: Annual Financial Statements for year 2008
Audit duration: 60 working days
Auditing team: Dragiša Pešić and Dušan Mrdović
I BASIC ELEMENTS OF THE AUDIT OF ANNUAL FINANCIAL STATEMENTS OF PE FOR MANAGING COASTAL AREA

1. Legal basis, aim and type of audit

Legal basis to perform audit is stipulated by the Law on State Audit Institution (“Official Gazette of MNE”, No.28/04, 27/06, 78/06 and 15/07), Annual Audit Plan of State Audit Institution for 2009, and Decision of the Board V on performing audit No.40112-05-36 as of January 20th, 2009.

The general audit has been performed pursuant to: International Accounting Standards and International standards for audit of the public sector – INTOSAI standards, Rule Book on Methodology of Work of State Audit Institution (“Official Gazette of MNE”, No.02/05) and Rules of Procedure of the State Audit Institution (“Official Gazette of MNE”, NO.57/06).

The aim of the audit

The aim of the audit is to determine, through the control, whether financial statements:

- Have been made in accordance with legislation.
- Whether a reliable and truthful balance has been recognized at the end of the year and during 2008.
- Whether tasks and realized results are different than planned ones.

The aim of the audit was to provide an opinion based on the audit whether balance of the property, equity and liabilities are stated in a truthful and objective way, as well as results of business, with application of international standards.

Based on determined facts the proposal of measures for improvement of business and more efficient implementation of basic function of the audited entity have been provided.

Type of the audit

The audit of financial statements of the Public Enterprise for Managing Coastal Area of Montenegro is in line with the Work Plan of State Audit Institution for 2009, and it has a character of the general audit.

2. Subject, scope and methods to perform audit

Subject of the audit

In accordance with International Accounting Standards, Law on Accounting and Auditing and Work Plan of the State Audit Institution for 2009, subject of the audit were financial statements of Public Enterprise for Managing Coastal Area of Montenegro for 2008, as follows

- Balance Sheet,
- Income Statement,
- Changes in equity statement,
- Cash Flow Statements,
- Changes in net equity statement,

Subject of the audit were also matters of legal organization of the Public Enterprise for Managing Coastal Area of Montenegro.
The contracts for usage of costal area have been controlled and analyzed within the audit, as well as implementation of tenders, respect of agreements, determination of leasing prices, fees for tourisms and other enterprises.

Scope of the audit

The audit has included: Control of the implementation of legislation in work of the enterprise, control of application of IAS in business records, control and accuracy and update of financial documents and control of accuracy of financial statements and reports.

Methods of the audit

The auditors have been using following methods: Analysis and direct insight into all relevant accounting documents of the audited entity, testing on sample basis, as well as interview method.

The audit has also controlled: internal control system of the audited entity, contents of financial transactions, analytical procedure and balance of the accounts.

3. General information on audited entity, organization and normative establishment

Pursuant to article 5 of the Law on Coastal Area, the Parliament of Montenegro has adopted a Decision on establishment of the Public Enterprise for Managing Coastal Area of Montenegro (“Official Gazette of MNE”, No.25/92).

The representative office is in Budva, Ul. Popa Jola Zeca b.b.

Identification number of the company is: 02116146.

Code of activity is 70320 – management of real estate on behalf of other entities.

The Public Enterprise was filed in the registry in 1992 pursuant to the Law on Public Enterprises and the Law on Coastal Area. The Public Enterprise was registered again with the Central Registry of the Commercial Court in Podgorica in 2002, No. 8-00110870/02, after the Company Law was enacted.

Public Enterprise employs 37 employees.

Public Enterprise for Managing Coastal Area of Montenegro is organized as an autonomous legal unit with defined competences of individual services.

Public Enterprise is represented by the Director of the company Rajko Barović. Manager of the Economic-Financial Department is Ljubica Bujković.

Management Board and Executive Director in accordance with the statutory and legal authorities coordinate the work of special organizational units – services.

The Public Enterprise had organized six services.

The Public Enterprise is managed by the Management Board. Management Board comprises of a Chairman and six members. Executive Director of the Enterprise and members of the Management Board are appointed and dissolved by the Government of Montenegro.

The Decision about establishment of the Public Enterprise for Managing Coastal Area of Montenegro in 1992 specifies that two members of the Management Board are experts and scientific
employees in area of environmental protection, biology of the sea and maritime law, two members are representatives of hotel managing entities, and two of them are employed within the company.

The audit from 2008 has showed that article 5 of the Decision on Establishment of Public Enterprise for Managing Coastal Area of Montenegro is not applied as far as expertise criteria is concerned, i.e. obligation that two members of the Board need to be experts and scientists from area of environmental protection, biology of the sea and maritime law, and as far as representatives of the hotel management entities are concerned.

Management Board of the Public Enterprise has been deciding on all issues from basic activities of the Public Enterprise in 2008.

The work of the Management Board includes basic issues related to the activities of the Public Enterprise, implementation of work plans, usage of funds, investments, public procurements, determination of the Plan of facilities of temporary character in coastal area, implementation of the program from domain of organization of bathing zones, decisions about leasing of the parts of the coastal area and conditions for leasing, implementation of general acts. Management Board’s Agenda includes issues related to: implementation of individual decisions from its competences, consideration of all significant proposals and program of development and investment in coastal area, implementation of information on concluded contracts on usage of coastal area, and conduction of works on sanitation and development of the coast, as well as all relevant issues from the scope of work of the Public Enterprise for 2008.

In accordance with the legislation, Statute and General Collective Agreement the Public Enterprise has adopted: Collective Agreement for Public Enterprise for Managing Coastal Area of Montenegro, Rule Book on Accounting, Rule Book on Housing Needs of Employees, Rule Book on Internal Organization and Systematization of Employees’ Posts, Rule Book on Accounting Policies, Price List for the initial fees for temporary usage of locations in the coastal area for 2008, Decision of the Management Board on criteria for specification of the amount of funds for sponsorships and supports and Instruction on Usage of Official Cell Phones.

The company has not established the internal control system. The public enterprise has not adopted acts that relate to: internal control, usage of cars for official purposes, business trips, daily allowances, representation costs.

4. Accounting policies

Management Board of the Public Enterprise for Managing Coastal Area of Montenegro has reached Decision about adoption of the Document “Accounting policies” in 2006, based on which financial statements of the Public Enterprise are made and disclosed.

The document defines basic issues of financial reporting and needs for objective presentation of financial status, significant businesses and cash flow statements.

It also defines issues of:
- Recognition,
- Valuation,
- Presentation – disclosure of financial statements.

The adopted accounting policies, according to Auditor’s opinion, have been applied while drafting and presenting financial statements, which has been also stated with the commercial audit report for 2008.
II  FINANCIAL STATEMENTS OF THE PUBLIC ENTERPRISE FOR MANAGING COASTAL AREA OF MONTENEGRO FOR 2008

- **Balance Sheet**
  
The total value of fixed assets of the Public Enterprise on December 31st, 2008 amounted 1,598,855.00€.

- **Intangible assets**
  
  Balance Sheet recognizes intangible assets amounting 55,036.00€, and it relates to paid licenses from 2006: bought license for software Oracle of net book value 1,530.00€ and license for usage of Microsoft software, net book value 1,818.00€.

- **Property, plants and equipment**
  
The items that relate to: property, plants and equipment have been stated according to purchase values and have been decreased for impairment and now amount 1,461,731.00€.

- **Long-term accounts receivable**
  
  Long-term liabilities in 2008 amount 81,264€ and are related to housing loans.

  Long-term housing loans are approved for four employees amounting 81,264.00€, according to contracts from 2004 and 2005.

  Housing contracts to employees predict the procedure of mortgage for loans, but the same has not been conducted. The Public Enterprise has acted as suggested by state auditors and made correction in accounting records based on the audit.

- **Long-term financial investments**
  
  Long-term financial investments related to participation in the equity of other legal persons amount 824.00€.

- **Short-term accounts receivable**
  
  Total accounts receivable from buyers are stated in the Balance Sheet on December 31st, 2008 amounting 526,841.00€.

  Total accounts receivable increased 3.1 times, and they are a consequence of the increase of the accounts receivable from buyers by 3.5 times. The biggest receivables are from municipality of Bar (fee for usage of coastal area for 2008) and after the payment of this account, the increase would be 36%, which is less then growth of income (47%). The municipality of Bar has paid its debts with compensation on February 27th, 2009.

  Doubtful receivables increased by 6% since during 2008 new sues have been made amounting 65,976.00€.
Receivables stated in correction of value that are indirectly written off are also sued. In 2008 receivables amounting 65,976.00€ have been indirectly written off, and according to the Decision of the Management Board and adopted accounting policies, they have been written off since it is most certain they would not be paid. The court settlements from previous year amount:

- Settlements before courts that are lead by legal service 22,484.00€
- Settlements before courts with engaged lawyers 41,133.00€

The total amount of receivables is 129,594.00€. Based on the Decision of the Management Board the amount of receivables from “Delfino Mont” d.o.o. Budva has been booked – 2,574.00€. After the records of the doubtful amounts, the receivables amount 127,019.00€.

Other receivables decreased by 5.8 times, but due to smaller absolute participation (0.6% in the structure of gross receivables) they do not have any bigger influence.

Up to April 30th, 2009 from the overall receivables from buyers amounting 538,925.00€, the amount of 473,380.00€ has been paid or 87.84%.

- **Cash**

  Cash on December 31st, 2008 amounted 2,681,725.62€, and it was deposited with following banks

<table>
<thead>
<tr>
<th></th>
<th>Payment of debts</th>
<th>Receivables payment</th>
<th>Balance on December 31st 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atlasmont banka AD Podgorica</td>
<td>5,014,076.87</td>
<td>3,877,133.88</td>
<td>1,136,942.99</td>
</tr>
<tr>
<td>Prva Banka CG</td>
<td>2,272,955.66</td>
<td>811,443.60</td>
<td>1,461,512.06</td>
</tr>
<tr>
<td>Crnogorska komercijalna banka</td>
<td>94,367.25</td>
<td>57,452.21</td>
<td>36,915.04</td>
</tr>
<tr>
<td>Montenegro banka AD Podgorica</td>
<td>82,542.33</td>
<td>36,186.80</td>
<td>46,355.53</td>
</tr>
<tr>
<td></td>
<td>7,463,942.11</td>
<td>4,782,216.49</td>
<td>2,681,725.62</td>
</tr>
</tbody>
</table>

Receivable and debt accounts have been stated in gross amounts and they include increases and decreases in amount of 1,800,000.00€ that relate to the transfer of funds from Atlasmont Bank to the account of Prva Banka CG.

At cash account – the increase was registered by 2.11 times. This is almost the same growth trend compared to the period 2007/2006. This is a consequence of increased inflow of funds from charge of receivables, as well as less outflow of funds.

- **Capital and reserves – number 15-19 Balance Sheet**

  The value of the founding capital on December 31st amounts:

<table>
<thead>
<tr>
<th></th>
<th>State capital</th>
<th>Reserves</th>
<th>Revaluation reserves</th>
<th>Accrued income</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td>74,481.00</td>
<td>7,806.00</td>
<td></td>
<td></td>
<td>822,742.00</td>
</tr>
<tr>
<td>Revaluation of property, plants and equipment</td>
<td></td>
<td>802,742.00</td>
<td></td>
<td></td>
<td>802,742.00</td>
</tr>
<tr>
<td>Profit for the period</td>
<td>1,458,829.00</td>
<td></td>
<td></td>
<td></td>
<td>1,458,829.00</td>
</tr>
<tr>
<td>Balance on December 31 2008</td>
<td>74,481.00</td>
<td>7,806.00</td>
<td>802,742.00</td>
<td>3,143,812.00</td>
<td>4,028,841.00</td>
</tr>
</tbody>
</table>
The founding capital amounts 74,481.00€ and is owned by the State (Parliament of Montenegro) while reserves amounting 7,806.00€ have been formed in earlier periods – there is no legal obligation to allocate reserve now. Revaluation reserves amount 802,724.00€ and are related to the estimate of buildings – administrative building amounting 691,242.00€ and estimate of revaluation reserve – land amounting 111,500.00€.

Retained earnings at the end of 2008 amount 3,143,812.00€. In 2008 the amount of 1,458,829.00€ has been recognized, and profit from earlier years amounts 1,648,983.00€. There is a need to invest special financial means in the coastal area and implement projects that are in the function of preservation of coastal area and development of tourism.

The realized profit represents fees paid by the legal and physical persons for use of coastal area, and these funds need to be transferred to investment and maintenance of coastal area.

- **Long-term liabilities**

  Long-term liabilities in 2008 amount 257,901€. Deferred income amounts 121,505€, and other long-term liabilities amount 136,396€. Other long-term liabilities consist of housing loans amounting 81,264.00€ and allocated funds from profit that have not been allocated yet amounting 55,132.00€. Deferred income consists of receivables from employees based on housing loans amounting 81,264.00€ and donations amounting 40,241.00€.

- **Donations**

  Account 4330 recognizes deferred income from donations amounting 40,241.00€. It has been granted through Grant Agreement – external activities of European Community – implementation of projects with the title “Urban Planning in coastal areas – Plan Coast – Project”. The total costs predicted by the project amount 94,100.00€ or 90% of the estimated costs. The allocated funds amounted 67,752.00€ and the same was used in the amount of 40,241.00€.

  The said item has been shown in the assets as intangible asset “Plan Coast” project for MNE (purchase value 36,607.19€), net book value of 34,776.83€, software Auto Cad 3D 2008 for the needs of the project (purchase value 4,283.30€), net book value 3,426.64€ and in part of the tangible assets – equipment, two notebooks (purchase value 2,483.42€). Net book value amounts 2.036.40€. The amortization for the current year amounted 3,134.04€.

- **Short-term liabilities from operations – item number 26 Balance Sheet**

  Debts to suppliers amount 605,861.00€ and they have increased by 9.3 times compared to year before.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable to suppliers</td>
<td>43,481.00</td>
<td>580,012.00</td>
<td>1,333.94</td>
<td>95.73%</td>
<td>66.99%</td>
</tr>
<tr>
<td>Account payable for advance payments</td>
<td>21,426.00</td>
<td>25,849.00</td>
<td>120.64</td>
<td>4.27%</td>
<td>33.01%</td>
</tr>
<tr>
<td>Total</td>
<td>64,907.00</td>
<td>605,861.00</td>
<td>933.43</td>
<td>100.00%</td>
<td>100.00%</td>
</tr>
</tbody>
</table>
Debts to suppliers dominate over the structure of short-term liabilities from operations and in 2007 they participate with 66.99% and in 2008 with 95.73%. Compared to 2007 they are higher by 1,333.94% while liabilities for accepted advances show 20.64% growth.

The biggest debts to suppliers are related to the Municipality of Bar and they amount 320,158.70€ and Public Utility Company Tivat amounting 52,577.66€. The said amounts have been compensated in 2009.

The contract has been signed with municipality of Bar on use (86 temporary locations), maintenance and development of coastal area, in the area of Municipality of Bar amounting 320,158.70€. The contract has been signed with municipality of Tivat to beach fill amounting 52,577.66€.

According to information provided by the Rental Service in the Public Enterprise, the payments from buyers amount 25,849.00€ and are recorded as advance payment until harmonization of fees and development of new annexes.

- Income Statement

- Income

Fee for use of coastal area is an income of the Company used for protection, development, improvement of coastal area, as well as for development of infrastructure and facilities for the needs of the coastal area. The plan of usage of these funds is adopted by the Public Enterprise with approval of the Government of Montenegro.

The State Audit Institution was not presented with the approval of the Government for the plan of usage of funds for 2008.

Coastal Area is provided for usage to national and foreign persons and legal persons based on the contract on usage of coastal area that is concluded by these persons with the Public Enterprise for Managing Coastal Area. The contract may be divided, according to the timeline, to contracts lasting up to one year and contracts longer than a year. Usage of coastal area without a right to build facilities made of rigid material is related to the contracts that last for less than a year. When coastal area is provided for use with the right to develop facilities made of rigid material, contracts are signed for longer than a year.

In 2008, the Public Enterprise for Managing Coastal Area has signed 645 contracts on rental of coastal area with national and physical and legal persons.

The audit of the contracts on rental of coastal area for periods up to one year showed no irregularities.

Audit and analysis of the contracts that have been made for longer than a year, has proved that there are some irregularities in contract number 01-16/2 as of January 17th, 1997, that was extended with annexes from April 1st, 1994, April 14th, 2003 and July 2nd, 2008. The irregularities are related to the fact that the user of the coastal area has not acted in accordance with the provision of the contract and positive legal regulations that regulate this area, and it has not conducted works in accordance with the Program of Annual Development and Usage of Coastal areas; knowledge and approval of the Public Enterprise and approval from the state authorities. This contract should have been canceled without the right to acknowledge to the user invested funds, and not to extend contract, without respect of the Price Lists for Initial Fees for Temporary Usage of the Locations in Coastal Area for 2008.
STRUCTURE OF REVENUES

<table>
<thead>
<tr>
<th>Type of revenues</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale of services</td>
<td>4,661,934</td>
<td>3,160,757</td>
</tr>
<tr>
<td>Operative revenues</td>
<td>108,506</td>
<td>165,975</td>
</tr>
<tr>
<td>Structure of operative revenues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from services – rental of coastal area</td>
<td>4,661,934</td>
<td>3,160,757</td>
</tr>
<tr>
<td>Other operative revenues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from services for earlier period</td>
<td>20,912</td>
<td>4,765</td>
</tr>
<tr>
<td>Income from decrease of liabilities</td>
<td>13,005</td>
<td>6,432</td>
</tr>
<tr>
<td>Paid written off receivables</td>
<td>53,239</td>
<td>49,151</td>
</tr>
<tr>
<td>Other operative revenues</td>
<td>6,326</td>
<td>1,584</td>
</tr>
<tr>
<td>Refunding</td>
<td>943</td>
<td>1,429</td>
</tr>
<tr>
<td>Income from termination of long term reservation – installments for housing loans</td>
<td>4,090</td>
<td>4,126</td>
</tr>
<tr>
<td>Donations</td>
<td>3,297</td>
<td>11,029</td>
</tr>
<tr>
<td>Purchase of tender document</td>
<td>3,181</td>
<td>4,609</td>
</tr>
<tr>
<td>Other</td>
<td>3,513</td>
<td>82,850</td>
</tr>
<tr>
<td>Gross operative revenues</td>
<td>4,770,440</td>
<td>3,326,732</td>
</tr>
</tbody>
</table>

Overview of realized revenues for regular activities per municipality for 2008 and 2007

<table>
<thead>
<tr>
<th>No.</th>
<th>Municipality</th>
<th>Fee for 2008</th>
<th>Fee for 2007</th>
<th>Participation in income in 2008</th>
<th>Increase compared to 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Herceg Novi</td>
<td>790,005</td>
<td>684,048</td>
<td>16.95%</td>
<td>15.49%</td>
</tr>
<tr>
<td>2</td>
<td>Kotor</td>
<td>412,216</td>
<td>376,127</td>
<td>8.84%</td>
<td>9.59%</td>
</tr>
<tr>
<td>3</td>
<td>Tivat</td>
<td>359,836</td>
<td>137,295</td>
<td>7.72%</td>
<td>162.09%</td>
</tr>
<tr>
<td>4</td>
<td>Budva</td>
<td>1,880,810</td>
<td>1,436,060</td>
<td>40.34%</td>
<td>30.97%</td>
</tr>
<tr>
<td>5</td>
<td>Bar</td>
<td>643,850</td>
<td>149,226</td>
<td>13.81%</td>
<td>331.46%</td>
</tr>
<tr>
<td>6</td>
<td>Ulcinj</td>
<td>575,217</td>
<td>378,001</td>
<td>12.34%</td>
<td>52.17%</td>
</tr>
<tr>
<td>Total</td>
<td>4,661,934</td>
<td>3,160,757</td>
<td>100%</td>
<td>47.49%</td>
<td></td>
</tr>
</tbody>
</table>

The structure of realized revenues is dominated by municipality of Budva as the biggest tourism center of Montenegro. It is followed by municipality of Herceg Novi and Bar in which in 2008 two big renters and municipality of Bar have made contracts (“Luka Bar” and “Sonuba Montenegro”, d.o.o.). The fee for these three renters amounts: 441,757.00€ or 68.6% compared to the gross fee in municipality of Bar.

The comparison of realized revenues per municipality compared to 2007 shows that there is a big increase in Municipality of Tivat where new contracts with “Adriatic Marines”d.o.o., Airport of Montenegro, JPO “Utility” Tivat, “Navar Incorporated” d.o.o. Tivat, Municipality of Tivat have been made, totaling 189,869.00€ or 52.76% of the gross revenues made in municipality of Tivat.

- Expenses

Expenses from operations with comparative analysis of the structure

<table>
<thead>
<tr>
<th></th>
<th>Plan 2008</th>
<th>Impl. 2008</th>
<th>Implementation</th>
<th>Participation in planned</th>
<th>Participation in implemented</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials used</td>
<td>2,980,020.00</td>
<td>1,754,993.00</td>
<td>58.89%</td>
<td>64.09%</td>
<td>52.73%</td>
</tr>
<tr>
<td>Costs of employees</td>
<td>773,000.00</td>
<td>753,833.00</td>
<td>97.52%</td>
<td>16.62%</td>
<td>22.65%</td>
</tr>
<tr>
<td>Amortization</td>
<td>49,000.00</td>
<td>48,913.00</td>
<td>99.82%</td>
<td>1.05%</td>
<td>1.47%</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>848,000.00</td>
<td>770,544.00</td>
<td>90.87%</td>
<td>18.24%</td>
<td>23.15%</td>
</tr>
<tr>
<td>Total operating expense</td>
<td>4,650,020.00</td>
<td>3,328,283.00</td>
<td>71.58%</td>
<td>100.00%</td>
<td>100.00%</td>
</tr>
</tbody>
</table>
Expenses from operations in 2008 amount 3,328,283.00 and compared to 2007 they grew by 27.20%, while 71.58% has been implemented against the plan.

Operative costs amount 1,754,993.00€ and they register growth of 26.88% compared to 2007 when they amounted 1,383,146.00€.

Participation of operative costs in gross expenses is 52.73% and it is pretty much the same as in 2007 - 52.86% and less than planned by 11.36%.

Participation of costs for employees in gross expenses is 22.65% and it is close to the amount in 2007 - 23.88% and bigger than planned by 6.03%.

### Operative expenses – energy, fuel, costs of investment in coastal area

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy and fuel</td>
<td>33,680.00</td>
<td>59,337.00</td>
<td>176.18%</td>
<td>37,000.00</td>
<td>160.37%</td>
</tr>
<tr>
<td>Office material</td>
<td>13,689.00</td>
<td>15,064.00</td>
<td>110.04%</td>
<td>12,000.00</td>
<td>125.52%</td>
</tr>
<tr>
<td>Other material</td>
<td>5,091.00</td>
<td>19,843.00</td>
<td>389.77%</td>
<td>11,500.00</td>
<td>172.55%</td>
</tr>
<tr>
<td>Maintenance services, beaches</td>
<td>324,810.00</td>
<td>468,474.00</td>
<td>144.23%</td>
<td>622,020.00</td>
<td>75.31%</td>
</tr>
<tr>
<td>Costs – investments</td>
<td>749,905.00</td>
<td>794,731.00</td>
<td>105.98%</td>
<td>2,037,500.00</td>
<td>39.01%</td>
</tr>
<tr>
<td>Production services</td>
<td>255,972.00</td>
<td>397,544.00</td>
<td>155.31%</td>
<td>260,000.00</td>
<td>152.90%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,388,147.00</td>
<td>1,754,993.00</td>
<td>126.88%</td>
<td>2,980,020.00</td>
<td>58.89%</td>
</tr>
</tbody>
</table>

Costs for electricity, office material, water and other material amounted 94,244.00€ and they increased by 79.65% compared to 2007 when they amounted 52,460.00€. These costs are 55.78% higher than planned 60,500.00€. Non-earmarked costs for water and electricity at Zukotrlici in Bar (44,229.00€) influenced the increase of these costs.

Costs of services of maintenance of beaches, beaches in coastal area (utilities works) amount 468,474.00€ and they increased by 44.23% compared to 2007 (324,810.00€), and they are 24.69% less than planned 622,020.00€.

Costs for investments amount 797,731.00€ and they increased by 5.98% compared to 2007 when they amounted 749,905.00€ and they are by 60.99% less than planned 2,037,500.00€, with explanation that the period needed for adopting plans, location studies, i.e. abiding by administrative procedures for work permits for construction caused delays in execution of the planned investments.

Costs of production investments amounted 397,544.00€ and they increased 55.31% compared to 2007 when they amounted 255,972.00€ and they are by 52.90% higher than planned amount of 260,000.00€

### Costs for employees – net salaries and fees, taxes, meals and so on

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs of net salaries and fees</td>
<td>358,711.00</td>
<td>447,207.00</td>
<td>124.67%</td>
<td>448,000.00</td>
<td>99.82%</td>
</tr>
<tr>
<td>Costs of income taxes and fees</td>
<td>75,972.00</td>
<td>95,026.00</td>
<td>125.08%</td>
<td>92,000.00</td>
<td>103.29%</td>
</tr>
<tr>
<td>Contribution for income and fees</td>
<td>106,904.00</td>
<td>127,191.00</td>
<td>118.98%</td>
<td>130,000.00</td>
<td>97.84%</td>
</tr>
<tr>
<td>Daily allowances and transport</td>
<td>28,573.00</td>
<td>21,649.00</td>
<td>75.77%</td>
<td>35,000.00</td>
<td>61.85%</td>
</tr>
<tr>
<td>Other personal expenses – management board, regress</td>
<td>54,792.00</td>
<td>62,760.00</td>
<td>114.54%</td>
<td>68,000.00</td>
<td>92.29%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>624,952.00</td>
<td>753,833.00</td>
<td>120.62%</td>
<td>773,000.00</td>
<td>97.52%</td>
</tr>
</tbody>
</table>
Costs of employees amount 753,833.00 and they make up for 22.73% of gross operating costs and they are higher by 23.62% compared to 2007 when they amounted 624,954.00€ and they are by 2.48% less than planned amount of 773,000.00€.

The number of employees on December 31st, 2008 is 37, which is three employees more than in 2007.

The audit has shown that costs of employees, as well as Members of the Management Board of the Public Enterprise are maintained in accordance with positive legal procedures in this area. Salaries to employees and members of the Management Board are paid based on the Agreement on the Determination of the Lowest Price of Work No. 0201-1336/1 as of May 24th, 2006.

The Decision number 0203-2263/7 as of December 31st 0028 determined fees to the Board members amounting 700.00€.

- **Other operating costs**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment operations</td>
<td>6,315.00</td>
<td>8,746.00</td>
<td>8,000.00</td>
<td>105.95%</td>
</tr>
<tr>
<td>PTT services</td>
<td>29,643.00</td>
<td>25,351.00</td>
<td>40,000.00</td>
<td>63.38%</td>
</tr>
<tr>
<td>Transport costs</td>
<td>11,618.00</td>
<td>13,729.00</td>
<td>15,000.00</td>
<td>91.53%</td>
</tr>
<tr>
<td>Sponsorships (for humanitarian, sport, cultural and health purposes)</td>
<td>144,532.00</td>
<td>176,454.00</td>
<td>150,000.00</td>
<td>117.64%</td>
</tr>
<tr>
<td>Advertising costs and marketing, blue flag</td>
<td>104,436.00</td>
<td>150,252.00</td>
<td>200,000.00</td>
<td>75.13%</td>
</tr>
<tr>
<td>Representation</td>
<td>13,360.00</td>
<td>13,110.00</td>
<td>20,000.00</td>
<td>65.55%</td>
</tr>
<tr>
<td>Rental</td>
<td>9,698.00</td>
<td>19,805.00</td>
<td>16,000.00</td>
<td>123.78%</td>
</tr>
<tr>
<td>Maintenance costs OS</td>
<td>10,587.00</td>
<td>13,582.00</td>
<td>12,000.00</td>
<td>114.02%</td>
</tr>
<tr>
<td>Compensation of damage to third parties</td>
<td>30,000.00</td>
<td>0.00</td>
<td>100,000.00</td>
<td>0.00%</td>
</tr>
<tr>
<td>Insurance Premium costs</td>
<td>987.00</td>
<td>1,086.00</td>
<td>2,000.00</td>
<td>54.30%</td>
</tr>
<tr>
<td>Write off of unpaid receivables</td>
<td>21,746.00</td>
<td>86,053.00</td>
<td>50,000.00</td>
<td>172.11%</td>
</tr>
<tr>
<td>Income costs – on account of employer and super tax</td>
<td>91,365.00</td>
<td>103,762.00</td>
<td>110,000.00</td>
<td>94.33%</td>
</tr>
<tr>
<td>Losses for sale of basic assets</td>
<td>663.00</td>
<td>6,182.00</td>
<td>5,000.00</td>
<td>123.64%</td>
</tr>
<tr>
<td>Expenses from previous years</td>
<td>21,744.00</td>
<td>76,245.00</td>
<td>30,000.00</td>
<td>254.15%</td>
</tr>
<tr>
<td>Losses</td>
<td>132.00</td>
<td>132.00</td>
<td>132.00</td>
<td>100.00%</td>
</tr>
<tr>
<td>Costs for taxes and super tax</td>
<td>7,837.00</td>
<td>9,750.00</td>
<td>10,000.00</td>
<td>97.50%</td>
</tr>
<tr>
<td>Other non-financial expenses</td>
<td>60,948.00</td>
<td>66,475.00</td>
<td>80,000.00</td>
<td>83.09%</td>
</tr>
<tr>
<td><strong>OTHER OPERATING EXPENSES</strong></td>
<td><strong>565,479.00</strong></td>
<td><strong>770,544.00</strong></td>
<td><strong>848,000.00</strong></td>
<td><strong>90.87%</strong></td>
</tr>
</tbody>
</table>

Other operating costs in gross expenses participate with 22.90%, while participation in 2007 amounted 21.61%. In the current year compared to the previous year an increase of 36.26% has been registered, while they are 9.13% less than planned.

As far as other operating costs are concerned, decrease of costs for PTT has been registered, amounting 14.48% compared to 2007 and 36.62% compared to the plan, representations decreased by 1.87% compared to 2007 and 34.45% compared to the plan.

All other costs register growth compared to the previous year, but they are in the frame of the planned costs. Costs of services of maintenance of basic assets, costs for humanitarian, cultural, health, education and sport manifestations, writing off of short-term receivables, costs for rental, expenses from previous year, writing off of basic assets, are implemented above the planned ones.
Allocation for costs for humanitarian, cultural, educational and sports manifestations is regulated by the Decision of the Management Board on Criteria for specifying the height of the amounts for sponsorships and support up to the 5% of the planned costs for the current year (4,200,00.00€ x 5% = 210,000.00€). In 2008, a growth of these funds was 22.09% compared to the previous year (144,532.00€), and these funds are 16% less than the limit allowed by the Decision of the Management Board, that amounted 210,000.00€ for the year 2008.

The used funds for these purposes amounted 176,454.00€ and for the most part they have been used for sponsorships to water polo, volleyball, football clubs and sports manifestations, and cultural manifestations, equipment for health institutions and humanitarian associates.

The increases of costs of rental are a consequence of unplanned increase of costs for rental of business premises of the Regional Water Management Authority by 2.5 times, and unplanned leasing of premises and equipment for trainings.

In the group of unplanned costs, costs for water and electricity for public lighting Zukotrlica in Bar dominate, as well as electricity for public lighting in Ulcinj, for period 2003 – May 1st, 2007.

Income from interest rates in 2008 has been realized in the amount of 16,672.00€ generated from: interest rates for approved housing loans 816.35€, demand deposits at business account 13,841.97€ and interest rates for debt-creditor relations amounting 2,013.93€.

- **Cash flow statement**

  Cash and cash equivalents increased from 1,272,956.00€ in 2007 to 2,681,726.00€ in 2008.

  Generation of income to cash flow during the year increased from 777,862.00€ in 2007 to 1,595,660.00 in 2008. As part of the cash outflows on the account of acquisition of property for investments there was an increase from 69,244.00€ to 186,890.00€. There was a net increase of cash and cash equivalents from 564,797.00€ to 1,408,770.00€.

- **Net equity statements**

  Retained earnings from 965,426€ (on December 31st, 2006) increased to 1,684,983€ (on December 31st, 2007). At the end of 2008 the accrued income amounted 3,143,814€.

  Gross capital of the company was 1,047,713€ (on December 31st, 2006) and it increased to 4,028,814 (on December 31st, 2008).

- **Public procurements**

  In accordance with the article 27 of the Law on Public Procurements and Decision of the Management Board as of June 27th, 2009 PE Coastal Area has adopted a Plan of Public Procurements for 2008. The plan predicts funds amounting 3,649,775€.

  In accordance with the Plan, the items for the public procurement in 2008 have been: goods of gross value 747,800.00€, works amounting 2,113,555.00€ and services amounting 788,420.00€.
In 2008 funds for public procurements have been implemented in the amount of 1,624,769.83€ which represents 44.52% growth compared to the planned values.

According to the report on awarded public procurements, Form A, Public Enterprise has conducted 17 public tenders, two negotiating procedures and one contest and there were no irregularities determined. In one case there was an objection that was refused as groundless.

The total value of public procurements is small (direct agreement) and it amounts 89,931.11€ which is only 3.78% compared to the gross annual budget for public procurements.

The total number of public procurements of small value (shopping method) is conducted in eight cases, and this was done for three goods of total value 20,454.02€; services: 4 (four) procedures of total values 28,360.00€ and works: one procedure with value of 325,681.33€.

- Court settlements

There are court proceedings lead against the Public Enterprise, filed by the physical and legal persons on various grounds. The court settlements are ongoing, and depending from the ruling they can cause outflow of funds that cannot more significantly influence operations of the Public Enterprise and according to the estimates made by the Legal service of the Public Enterprise there is not a chance that prosecutors may successfully terminate the proceedings.

Appellate Court of MNE according to the sue of the Public Enterprise has ruled on November 27th, 2007 that the “Pomorski Saobraćaj”, AD Kamenari is obliged to respect the provisions of the Court from 2004, which include monthly delivery of statements made about the generation of revenue, so that the Public Enterprise for Managing Coastal Area could determine the fee for usage of coastal area (with usage of 4% fee from income). The obligation is related to the period from January 1st, 2006, until the termination of the Contract on December 31st, 2018.

“Pomorski Saobraćaj” AD Kamenari is not abiding by the decision of the court, and Public Enterprise at the end of each year is sending invoices to “Pomorski Saobraćaj” in the amount of paid fees for a year, which is verified by the Management Board of the Public Enterprise.

State Auditor expresses reserve for the way and height of the payment of fees by AD “Pomorski Saobraćaj” based on the Contract on Usage of Coastal Area. Management Board of the Public Enterprise needs to take all necessary steps to make AD “Pomorski Saobraćaj” implement all obligations stipulated by the ruling of the Appellate Court from 2007.

Court settlements that are lead based on the sues of Public Enterprise for the debt that has emerged from the contractual relations, according to the statements of the Legal Service is much more certain as far as the final outcome is concerned. The uncertainty of court settlements lead against the company because of the disrespect of contractual obligations by the renter of the coastal area has decreased to the lowest possible level, since the Public Enterprise has provided bank guarantees while signing contracts.

III FINAL FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Based on determined facts and Statement of the Public Enterprise for Managing Coastal Area No.0303-841/5 as of October 9th, 2009, on the report of SAI (number 40115-05-151/14), and pursuant to article 48 of the Rule Book on the State Audit Institution, the competent Board comprised of Dragiša
Pešić (Member of the Council – manager of the Board) and Dušan Mrdović (member of the Council – member of the Board), at the session held on October 15th, 2009 has adopted the FINAL REPORT on the auditing to the Annual financial statements of the Public Enterprise for Managing Coastal Area for 2008 with following final assessments, conclusions and recommendations:

1. The Law on Coastal Area has been adopted in 1992. The existing Law has not been changed although there was a need to regulate certain issues of importance for the functioning of the company. The application of the Law showed the Law is incomplete in certain aspects. The Parliament of Montenegro has reached a Decision on adoption of the Urban Plan for the Special Purpose Coastal Area, State Property Law, Law on Legal Property Relations, Law on Concession, Law on Ports and other laws. The adoption of these laws has created legal basis for the adoption of the new or for amendments and changes to the existing Law on Costal Area.

Recommendation

- The State Audit Institution recommends that the Management Board initiates, with competent state authorities, the adoption of the changes and amendments to the Law and adoption of the new Law. Changes and amendments to the Law, i.e. implementation of the new one, should include all more significant issues for functioning of the Company, as well as issues contained within the Decision on Adoption of the Plan for Special Purpose Coastal Area.

2. The Public Enterprise was filed in the registry in 1992 pursuant to the Law on Public Enterprises and the Law on Coastal Area. The Public Enterprise was registered again in the Central Registry of the Commercial Court in Podgorica in 2002, after the Company Law was enacted.

Recommendation

- The State Audit Institution recommends to the Management Board of the Public Enterprise to discuss the issue of registration in the Central Registry of the Commercial Court along with competent state authorities, in order to define under which legal basis the Public Enterprise for Managing Coastal Area operates.

3. The Law on Coastal Area article 8 item 3 stipulates that the Plan of the usage of funds based on the fees for use of coastal area is adopted by the Public Enterprise with approval of the Government of Montenegro. The State Auditors were not presented with the document that is related to the approval of the Government to use funds in 2008.

Recommendation

- The State Audit Institution recommends to the Management Board of the Public Enterprise to obtain the approval of the Government for Montenegro at the beginning of the year for usage of funds.

4. Financial Statements of the Company for the longer period of time show the accumulated profit of EUR3,143,812 on December 31st, 2008. In coastal areas there is a need to invest certain financial resources and implement projects that are in function of preservation of maritime goods and development of tourism.
The State Audit Institution recommends that the funds based on the profit, in accordance with the legislation and by the decision of the Management Board and with the approval of the Government of Montenegro, should be used for protection, development, improvement of coastal area, as well as for the development of infrastructural objects for the needs of the coastal area.

5. The audit findings show that the Contract no. 01-16/2 as of January 17th, 1997, which has been extended with annexes to the contract as of April 1st, April 14th, and July 2nd, 2008, and is concluded for the longer period of time, is not respected by the renters.

Recommendation

The State Audit Institution recommends to the Management Board of the Public Enterprise to analyze and record all long term contracts from previous years. In accordance with regulations and price list, the eventual changes and amendments to contracts need not be proposed and harmonized, with the approval of the Management Board of the Public Enterprise. The State Audit Institution recommends that these activities are performed by the end of the year and that State Audit Institution is informed about this.

6. The company has not established the adequate system of internal control. The Public Enterprise has not adopted acts that relate to: internal control, usage of cars for official purposes, business trips, daily allowances, representation costs, limiting and planning of phone costs, sponsorship funds, and so.

Recommendations

The State Audit Institution recommends to the Management Board to establish a unique system of internal control to include: control of the use of funds, control of implementation of contracts, control of usage of cars for official purposes, business trips, daily allowances, representation costs, sponsorship funds, and so on.

7. In 2008 funds for public procurements have been implemented in the amount of 1,624,769.83€, which represented 44.52% of the planned value.

Recommendation

The State Audit Institution recommends that the Public Enterprise pays more attention to more realistic planning of public procurements.

8. State Auditor expresses reserve for the way and height of the payment of fees by AD "Pomorski Saobracaj" based on the Contact on Usage of Coastal Area. Management Board of the Public Enterprise needs to take all necessary steps to make AD “Pomorski Saobracaj” implement all obligations stipulated by the ruling of the Appellation Court from 2007.

The State Audit Institution recommends that the Public Enterprise takes all necessary steps provisioned by the Law and activities from its competence to implement court ruling. The authorized bodies of the Public Enterprise need to inform the State Audit Institution by the end of 2009, in written form about these activities and problems related to implementation of the court ruling.
III PART

FINDINGS AND RECOMMENDATIONS OF THE STATE AUDIT INSTITUTION
Senate of the State Audit Institution, pursuant to article 19 and 26 of the Law on State Audit Institution (“Official Gazette” of RMNE, No. 28/04, 27/06 and 78/06, “Official Gazette of MNE”, No. 17/07), and based on the final reports on the performed audits, considers the following findings and recommendations of importance for the Parliament of Montenegro:

1. **Cash deposits and integration of funds into the State treasury system**

   It has been determined through the audit that the information contained within the Cash Flow Statements – economic classification, includes all transactions financing public expenditure. However, due to the fact that the cash of individual budget beneficiaries has been kept at commercial bank accounts, we express reserve for the amount of recognized budget deposits.

   The Law Amending and Supplementing the Budget Law of Montenegro (“Official Gazette of Montenegro”, No. 12/07 as of December 14th, 2007) stipulates that the extra-budgetary funds shall become state funds with the obligation to harmonize their organization and general acts in accordance with the provisions of the Budget Law as of December 12th, 2008. It has also been determined through the Audit that the Employment Agency and Compensation Fund are completely integrated into the State Treasury System, while Pension Insurance Fund and Health Insurance Fund are partly included in the budget since their incomings are transferred through the State Treasury bank account, while outflows are realized by the Fund. The Development Fund, in the controlled period, has been operating independently from the State Treasury System and it has been maintaining the accounting and financial statements as stipulated by the Law on Accounting and Auditing, not considering the Budget Law which treats it as a state fund, while at the same time, the Bylaw and organization of the Fund have not been complied with the adequate legal solutions.

   • We recommend to the Government to harmonize the usage of the budget funds with the Budget Law and other legislation adopted based on this law.

   • We recommend to the Directorate for Development of Small and Medium-sized Enterprises that while implementing lending projects for entrepreneurs, transfers funds to the banks after the banks approve loans to beneficiaries and provide loans with which they participate in the project.

   • We recommend to the Government of Montenegro to reconsider legal status of the Directorate for Development of Small and Medium-sized Enterprises and Development Fund so as to arrange the organization and competences of the Directorate and the Fund as a direct spending unit in the budget, or at the principle of development funds.

   • We recommend to the Ministry of Finance to accelerate the process of integration of the above-mentioned state funds into the State Treasury system in accordance with legal obligations and that the Funds close their commercial bank accounts, transfer their money into the Treasury Consolidated Account and act in accordance with articles 36 and 37 of the Law Amending and Supplementing the Budget Law of Montenegro.

2. **Outstanding debts**

   The Ministry of Finance has not completely ensured monitoring and recording of outstanding debts. The Ministry of Finance has recognized State debt and issued guarantees at the end of the year, as stipulated by the Budget Law. We believe that the Report on Outstanding Debts, except for recognized debts, needs to include information about the foreign and internal debts of the State to provide consistent information about the total liabilities at the end of the year within this Report.
• We recommend to the Ministry of Finance to update the records on outstanding debts in the upcoming period in accordance with the amended article 16 of the Budget Law.

3. Revenue records

The Audit has shown that the Tax Administration is maintaining regular records on tax payments, as well as that it has conducted comprehensive implementation of the Book of Rules on Tax accounting, except for discrepancies within the opening balance. The audit has also proven that there are discrepancies in the financial amounts credited to income statements which are recorded in the General Ledger of the State Treasury, when the amount of EUR1,400,000 has been registered as the income of the Ministry of Finance instead as income of the Pension and Disability Insurance Fund.

The audit has also confirmed that the Ministry of Interior Affairs and Public Administration (the administrative interior affairs sector) has been making profit from taxes for physical persons based on registration of vehicles, issuance of citizenship certificates, and issuance of other personal documents (IDs, driving licenses, passports,…). The audit has also shown that the Ministry of Interior Affairs and Public Administration is not keeping proper records on this income, nor is it complying the number of processed cases with the amount of paid taxes against individual types of taxes, and the total harmonization of gross revenues with truly paid revenues recorded in General Ledger of the Treasury.

• It is recommended to the Ministry of Interior Affairs and Public Administration to keep efficient system of natural and valuable records on the number of processed cases and calculated income from taxes per type. It is also recommended that the Ministry of Interior Affairs and Public Administration should bring into line realized revenues on all grounds (monthly or quarterly) with truly charged revenues which have been reported in the General Ledger of the Ministry of Finance and Treasury. This harmonization would provide for an efficient and reliable control system of the charged revenues and their comprehensiveness. The records need to be formed so that they provide individual and gross amounts realized per type of revenues, payers and amounts in accordance with the records provided by the General Ledger of the Ministry of Finance and Treasury.

4. Employees’ salaries

It has been determined through the audit that there are no integrated information about the status, number and structure of civil servants or the adequate records about the changes in the state in this area, which makes it impossible to set a unique payroll system. Inconsistency of the payroll system due to the application of various legal solutions while determining salaries, lack of implementation of legal solutions, exceptions, or even breaches of legislation, as well as the existence of completely autonomous subsystems for determination of salaries are current characteristics. To solve this situation the Government would need to find a more comprehensive solution to manage the payroll system in general, enabling more complete access and updating of the records on salaries of civil servants and state employees.

It has been determined through the audit that 52% employees in the Ministry of Interior Affairs and Public Administration have a right to reduced service years for retirement. Since the Ministry of Interior Affairs and Public Administration has gone through significant changes as far as organization and competences are concerned, as well as that the five year deadline to determine working positions, i.e. jobs at which the years of services are insured with increased lasting, as stipulated by article 72 of the Law on Pensions
and Special Needs Insurance, the Ministry of Interior Affairs and Public Administration has not conducted the procedure for re-appraisal of the justification of the right to reduced years of service for retirement.

- **We recommend to the Government to integrate data on the status, number and structure of civil servants, as well as to maintain adequate records on the changes of the state in this sector. Inconsistency of the payroll system, due to application of various legal solutions while determining salaries, lack of implementation of legal solutions, exceptions or even breaches of regulations, as well as the existence of the completely autonomous subsystems to determine salaries are current characteristics. To solve this situation, the Government should find a solution to integrate the overall payroll system and enable more comprehensive access and updating of the records on civil servants’ salaries.**

- **It is recommended to the Ministry of Interior Affairs and Public Administration to conduct a procedure to re-appraise the justification of employees’ rights on reduced service years for retirement in cooperation with the Pension Fund. It is also recommended to the Ministry of Interior Affairs and Public Administration to determine working positions that fulfill conditions for reduced service years for retirement in accordance with the Book of Rules on Internal Organization and Systematization.**

- **The State Audit Institution recommends that the acknowledgement of working experience is admitted based on the certified copy of the employment booklet, which the candidates need to deliver while applying at the vacation notice, all with the aim to fully comply with regulations in this area.**

5. **Working groups**

The audit has shown that most of audited entities have numerous deficiencies as far as formation of working groups and payment of fees for participation in working groups are concerned. It has also been determined that individual jobs and tasks could be performed as regular activities in accordance with the job descriptions and working tasks prescribed by Book of Rules on Internal Organization and Systematization of Employees’ Posts.

- **It is recommended that fees to employees for participation in commissions and working groups are paid on the account of other personal income in case the same is planned with the budget for the current year. It is recommended to budget beneficiaries to act upon the article 69 of the Book of Rules on Organization and Functioning of State Administration, which determines the way project groups, teams and other form of works are established. The acts on establishment of project groups, teams or other forms of work need to stipulate the financial resources, tasks and deadlines to perform the task and present the Work Report.**

- **It is necessary to question the justification of formation of individual commissions and working groups that are established to perform jobs which are part of the job descriptions in spending units and to provide adequate application of the article 69 of the Book of Rules on Organization and Functioning of State Administration (“Official Gazette of Montenegro”, No. 59/09).**
6. **Internal Control System**

During the audit, it has been determined that there are certain weaknesses in the functioning of the internal control system. The audits that have been performed in the Employment Agency, Development Fund, Ministry of Interior Affairs and Public Administration, Prosecutor’s Office and Ombudsman, have showed that:

k) In the Employment Agency and Development Fund there is no adequate system of internal control.

l) It has been determined that the Ministry of Interior Affairs and Public Administration and State Prosecutor’s Office do not have Book of Rules (internal documents) that would determine the rules and procedures to regulate consumption of fuel, phone, representations, business trips in the country and abroad and similar. Implementation of these documents would have significant impact on the establishment of the efficient system of internal control, with the aim to viably consume public resources.

m) It has been determined with the audit that the Ombudsman does not have an implemented plan and work program for 2008 and that it operates without implemented internal book of rules that would regulate consumption of fuel, the height of costs for fixed and mobile phones, representation costs, business trips and similar, which is of significance for establishment of efficient internal control system. The Ombudsman has not established the accounting system as stipulated by accounting standards and positive rules. Namely, it has been determined that the surveillance and control function over the regularity of performance of duties has not been established, nor the principle that would separate duties, since one person is conducting several incompatible jobs (such as liquidation, maintenance of accounting records and cash in hand, etc.). It has also been determined that the recording of transactions is not maintained by computer but by hand.

- **It is necessary to establish the adequate system of internal control with the aim to provide business-like and efficient operations, which include acting upon adopted management policies, prevention and disclosing of errors, accuracy and reliability of accounting records and timely development of reliable and quality accounting-financial information.**

- **The State Audit Institution recommends to the Ministry of Interior Affairs and Public Administration, State Prosecutor’s Office, Ombudsman, as well as other spending units to elaborate an internal act which would regulate consumption of fuel, phone, representation costs, business trips to the country and abroad. This internal act would determine in detail the rules and procedures for approval and justification of costs under all grounds.**

- **It is recommended that the Government adopts a document which would regulate legal rights and obligations of budget beneficiaries when using official cars, with the obligation to apply the same in all authorities of the state administration, with necessary transparency of usage procedures.**
- **Budget records and appropriated spending of funds**

  During the audit it has been noted that most audited entities have deficiencies in budget planning, recording and usage of cash flows as well as in the appropriated spending of the budget.

  - **It is recommended to the Government that the treasury operations are harmonized with the Book of Rules on the Functioning of State Treasury and Bylaw on Fees and Other Remunerations to Civil Servants and State Employees and that the payment should be made from cash-in-hand only in cases when it is not possible to make non-cash transactions; all in order to decrease cash transactions.**

  - **It is recommended to spending units that the request procedures for the expenditure of budget funds prescribed by articles 11 and 35 of the Budget Law and point 39 of the Book of Rules on Functioning of State Treasury should be consistently implemented.**

  - **Our recommendation to the Government is to adopt an act which would provide timely delivery of court rulings to the State Treasury, with synchronized participation of the State Prosecutor’s Office and the sued spending units of the budget, in order to avoid unnecessary expenditures of budget funds in court proceedings.**

7. **Records of the state property**

Audits conducted up to date have shown that there are problems with the recording of state property. The new State Property Law and Law on Legal-Property Relations establishes a framework that stipulates adoption of subordinate legislation with clearly defined deadlines, and for that reason we insist on up-to-date implementation of this very important issue. The audit conducted in the Ministry of Interior Affairs and Public Administration, State Prosecutor’s Office has shown the following irregularities:

With the audit conducted in the Ministry of Interior Affairs and Public Administration it has been determined that the procedures and activities that need to be conducted by authorized persons of the newly formed units, in cooperation with the commission formed to perform the practical part of the division balance in the former Ministry, has not been conducted. As a consequence, the division balance is being late and it needed to be completed by March 2007. The audit has also shown that the Ministry of Interior Affairs and Public Administration is not providing analytical reports of the non-financial assets as is stipulated by: IAS for public sector, Property Law, Book of Rules on Unique Classification of Accounts for the Budget of the Republic, Budgets of Extra-budgetary Funds and Budgets of Municipalities, Book of Rules on Distribution of Tangible and Intangible Assets According to Groups and Methods to Determine Amortizations of Budget and Extra-budgetary Funds and Book of Rules on Functioning of State Treasury (which includes records for each asset individually, per type, amount, purchase value, write-off and current values, as well as that every other basic asset has its inventory number). The audit has also shown that the internal entrusting with equipment is not conducted, for the equipment that is provided to individual employees for usage. Employees that have this equipment provided for usage need to be internally encumbered (with reverse). It has been determined by the audit that the commission for stock taking has also evaluated the assets. The estimate of the value of assets needs to be conducted by an independent authorized estimator. The audit has also proved that the State Prosecutor’s Office is not providing analytical records of the basic assets as it stipulated by: IAS for public sector, State Property Law, Book of Rules on Consistent Accounts’ Classification for the State Budget, Extra-Budgetary Funds and Municipal Budgets, Book of Rules on Distribution of Tangible and Intangible Assets According to Groups and Methods to Determine Amortizations of Budget and Extra-budgetary Funds, which includes records for each asset individually, per type, amount, purchase value, write-off and current values.
As the source of data on the available basic assets the Office uses the inventory lists. The accounts of the basic assets in inventories for 2008 have been taken over from 2009 inventory lists.

- **The State Audit Institution recommends to the Ministry of Interior Affairs and Public Administration to conduct division balance and question the reasons why procedures and actions that have preceded the development of division balance have been late with, as well as to make entries in its account books based on the division balances, as follows:** of non financial assets (buildings, land, equipment, small inventory, reserves and materials), financial assets, cash in hand and bank accounts, accounts receivable, accounts payable from employees based on housing loans and advance payments, accounts payable to suppliers, outstanding debts for salaries and fees. The procedure of division and recording of the property should be conducted as stipulated by the State Property Law (articles 45 and 66). All listed accounting records should be conducted as opening balances in account books based on the division balance.

- **Our recommendation to the Ministry of Interior Affairs and Public Administration is to make an estimate of the property by the side of the authorized estimator, to form analytical book of basic assets in which it would record all fixed assets with all important elements (inventory number, name of the asset, amount, type, purchase value, amortization and current value), to provide records of liabilities and receivables and to comply all analytical records with the records of the General Ledger.**

- **The State Audit Institution recommends to the State Prosecutor's Office to form analytical books of basic assets in which it would record all basic assets with all important elements (inventory number, name of asset, amount, type, purchase value, amortization and current value). The Analytical book of basic assets needs to provide overview of the total intangible assets of the State Prosecutor’s Office of Montenegro, according to the Rule Book on Internal Affairs of the State Prosecutor’s Office.**

8. **Public Procurements**

The audit has shown that the most part of audited entities have numerous deficiencies in the application of Law on Public Procurements. There are no plans or they are not realistic, the procedure lacks transparency, employees for public procurements are not named, reports are not accurate and the regulations are breached – these are the characteristics of the current system. The provisions of the Law regarding implementation of the direct agreement procedures have not been respected, since contracts have been awarded based on this ground despite the fact that the procurement item was above the legal maximum allowed, which violates the basic principles of public procurement - transparency principle, equality, competitiveness and cost-efficiency. This has as a consequence that the gross annual values of the public procurements realized through the direct agreements are significantly above maximum allowed 10% of the value of gross realized annual budget for public procurements. The individual audits also showed that the beneficiaries have not acted upon the conditions and methods of procurement while applying the direct solicitation of tenders – shopping method, and they have also divided the procurement items and thus avoided application of the legally prescribed procedures.

The audits have also showed that the payment of fees to the commission for public procurement procedures has been conducted based on the decision of the manager of the authority and not based on the provisions of the Rulebook that determines the conditions and criteria to determine the amounts for work in individual commissions.
These Rulebooks in most cases do not exist or are not implemented. Based on the performed audits of the reports on the property of spending units, it has been determined that there are shortfalls in procurement of vehicles. Budget beneficiaries have been procuring various types of cars for official needs. The conclusion is that the procurement of vehicles, and especially official cars is completely decentralized and left to the will of budget beneficiaries, as well as that there are no standards about the type and class of vehicles that the state authorities can purchase.

- The State Audit Institution recommends to the auditees to adopt and publicize realistic plans of public procurements for the budget year at latest by the end of the previous year, as stipulated by article 27 of the Law on Public Procurements, to conduct open procedures whenever they are in position to, as this is the most transparent form of procedure, and thus maximally respect other principles of public procurement; to consistently apply article 77 of the Law on Public Procurements while conducting shopping method; and to respect article 78 of the Law prescribing that the gross annual value of the procurement conducted through direct agreement should not supersede 10% of the total annual procurement budget, while the term gross annual value is considered as implemented and not planned funds.

- The State Audit Institution recommends to auditees to adopt internal documents that would define conditions and criteria for the determination of the amount of fees for work in commissions for public procurements.

- It is recommended to the Government to adopt a document that would define the rights and obligations of budget beneficiaries while procuring official cars, with the obligation that this document is applied in all state authorities with necessary transparency of the procurement procedure.

9. Local self-government

It has been determined through the audit that a number of municipalities is not implementing article 64 of the Law on Financing of Local Governments stipulating that municipalities need to obtain previous approval from the Government of Montenegro before taking any loans.

- State Audit Institution insists on the consistent implementation of the Law on Financing of Local Governments and it obliges municipalities to ask for the permission of the Government of Montenegro when taking loans.

The audit of a number of municipalities has showed that the sales of property should be surveyed by all subjects at the level of the Municipality.

- While selling the property, it is not necessary to only formally obey provisions of the Law on Public Procurement, Law on Property-Legal Relations and other regulations that stipulate property sales. It is also necessary to make an analysis of feasibility of sales, as well as the program for which the funds will be used. It is also necessary, prior to sales, to conduct activities to develop and bring urban plans and create conditions stipulated by legal regulations on development and maintenance of space, as well as better valorization of resources.
10. Enterprises in which the state has majority stake

a. Railways of Montenegro

Property records – The company does not have records of the intangible assets for a longer period of time, which has been concluded with commercial auditor’s reports, as well as in the annual report on property stock taking and liabilities which was made by a Central Stock taking Commission.

• In accordance with the legislation, and especially the State Property Law, the newly formed bodies of the company should register their property, as well as take a look at the usurped land, especially in railway area. The activities related to the above said need to be conducted in cooperation with competent state authorities.

Accounting systems and policies - The company has not adopted adequate accounting policies, in accordance with the Law on Accounting and Auditing and International Accounting Standards. The company has not made financial statements in accordance with the Rule Book on way of preparation, drafting and submitting of the financial statements of regulatory bodies, legal persons, limited liability companies, and joint stocks in which state or municipality holds majority stake (“Official Gazette of the RMNE”, No. 12/2008), that regulate the way annual financial statements are prepared, drafted and submitted.

• The newly formed companies need to apply Rule Book on way of preparation, drafting and submitting of the financial statements of regulatory bodies, legal persons, limited liability companies, and joint stocks in which state or municipality holds majority stake

• Boards of Directors in these companies need to adopt documents that are related to accounting policies, system of monitoring of all cash flows in these companies. It is especially important to introduce monitoring system of costs and performances according to the place where they have been created – class 9.

Lending – while making individual agreements on loans the Company has not respected legal procedures that define it is necessary to obtain approval from the Government before borrowing.

• The activities that precede the borrowing need to include realistic plans and programs for usage of loans, with constant monitoring of the implementation by the Board of Directors.

• It is necessary to respect the legal procedures that define it is a duty to obtain an approval from the Government before taking any loans.

b. Public Enterprise for Coastal Area Management

17. The Law on Coastal Area has been adopted in 1992. The existing Law has not been changed although there was a need to regulate certain issues important for the functioning of the company. The application of the Law showed the Law is incomplete in certain aspects. The Parliament of Montenegro has reached a Decision on adoption of the Urban Plan for the Special Purpose Coastal Area, State Property Law, Law on Legal Property Relations, Law on Concession, Law on Ports and other laws. The adoption of these laws has created legal basis for the adoption of the new or for amendments and changes to the existing Law on Costal Area.
• **The State Audit Institution recommends that the Management Board initiates, with competent state authorities, the adoption of the changes and amendments to the Law and adoption of the new Law. Changes and amendments to the Law, i.e. implementation of the new one, should include all more significant issues for functioning of the Company.**

18. **Financial Statements of the Company for the longer period of time show the accumulated profit of EUR3,143,812 on December 31st, 2008. In coastal areas there is a need to invest certain financial resources and implement projects that are in function of preservation of maritime goods and development of tourism.**

• **The State Audit Institution recommends that the funds based on the profit, in accordance with the legislation and by the decision of the Management Board and with the approval of the Government of Montenegro, should be used for protection, development, improvement of coastal area, as well as for the development of infrastructural objects for the needs of the coastal area.**

c. **Strengthening of supervising functions**

• **Taking in consideration the findings of the State Audit Institution in the reporting period, in companies where the state holds majority stake of the capital, the State Audit Institution insists on further strengthening of the supervising and managing function in those companies.**
IV PART

OTHER ACTIVITIES

OF THE STATE AUDIT INSTITUTION
Apart from its day-to-day activities referring to the audit, the Institution has performed significant activities as regards further institutional, organizational, human resources and infrastructural strengthening during the reporting period.

At the same time, significant steps have been taken to improve material position of state auditors, to draft and adopt developmental documents and bylaws, to improve personnel skills and train them, as well as to foster international cooperation.

1. Cooperation with the Parliament and the Government of Montenegro

Structural reform implementation and further fostering of the public finance system required enhancing of the Institution’s work, by enabling full implementation of its three basic activities: control, advisory functions and monitoring over the implementation of the recommendations given, as well as overall fostering of the monitoring function.

The Institution continues its intensive cooperation with the Montenegrin Parliament, especially with its Economics, Finance and Budget Committee.

Cooperation between the Institution, Parliament and the Government bears special importance for the ongoing implementation of reforms and economic development of Montenegro, as well as for the near future when the implementation of new reform laws and monitoring of the expected outcomes will have special importance. In this regard, the Institution will play an important role through its advisory function. We believe it is of crucial importance to adopt an adequate document which would institutionalize cooperation between the Institution, the Committee and the Ministry of Finance.

It is necessary to adopt a decision on establishment and positioning of the auditing authority for IPA funds in the close future. Namely, the Law on Ratification of the Framework Agreement prescribes that the “auditing authority shall be appointed by the Beneficiary and it shall be functionally independent from all institutions in the management and control system…” (Annex A point 7). With this in mind, and with the aim to provide the most comprehensive solution, the State Audit Institution finds it necessary to continue and finalize communication in shortest possible time, that would, in cooperation with the Government and competent ministries, clarify delegation of authorities and legal and core issues in respect of possible conflicts of interests, prior to the decisions on the final employment of the authority that would perform abovementioned task.

2. Cooperation with state authorities, institutions and civil sector

The State Audit Institution continued and intensified cooperation with state authorities, institutions and civil sector, especially with the Ministry of Finance, Anti-corruption Initiative Directorate, Money-Laundering and Terrorism Finance Prevention Directorate, Public Procurement Control Commission, Human Resources Management Authority, Tax Administration and other State Authorities. Protocol on cooperation and exchange of information with Money Laundering and Terrorism Finance Prevention Directorate has been inked, while Protocol on Cooperation with Police Directorate is currently drafted.

We believe that institutionalization of cooperation with other authorities competent for control of usage and allocation of public funds is important, especially to strengthen anti-corruption activities and synchronize work of all entities.

To this end, the Institution shall remain open for any further communication with the civil society.
3. Adoption of the development documents and harmonization of the legal provisions

The State Audit Institution is a relatively new Institution, which was introduced into the legal and economic system of Montenegro only four years ago, being a part of the strategy for reforming public finance sector and establishing an independent economic system.

In order to provide for further development of the Institution, it is necessary to continue the activities on preparing the Institution’s development strategy in the forthcoming period, where the future development activities and Institution’s priorities would be set out. The Institution’s Senate has established guidelines for drafting the Institution’s development strategy with support of foreign experts. The integral part of the abovementioned strategy is a public relations strategy. The elaboration of the long-term auditing plan has continued, while the adoption on the new Guideline on Work Methodology was delayed because of the need to previously test specific solutions in practice, especially in respect of the performance audit, and because of the need to adopt other documents based on the auditing experience, of significance for such an important document.

In accordance with the authority assigned to it by the article 21 of the Law, the State Audit Institution has initiated, through the Economics, Finance and Budget Committee and Ministry of Finance, changes and amendments to the Budget Law, and provided recommendations for changes and amendments to the Law and by-laws based on the performed audits.

In the continuation of the comprehensive reforms in the public finance sector, the Institution shall, in the forthcoming period, undertake activities related to consideration of the need for harmonizing legal framework with the strategic goals of the Institution’s development.

It is especially important to consider the possibilities for determining the Institution’s role in approving the commercial audit of municipal activities, activities of the commercial companies and other entities whose financing sources are either public one or derived from use of the state property.

Namely, the State Audit Institution is not in a position to perform annual audits of all these entities. The international practice is to give consent to the choice of a commercial auditor for the entities in question. By changing legal provisions, the Institution would be entitled to participate in choosing the commercial auditing companies, which would be performing audits of municipalities, public enterprises, regulatory agencies, funds and donation funds, thus improving the quality of the audits performed, and simultaneously increasing the number of controlled entities, if, based on clear criteria, these audits would be recognized as external ones.

The Institution is determined, in the following years, to significantly participate in the reform process and in the process of enhancing institutional mechanisms, which shall be based on further capacity development, continued education of the civil servants, and on activities related to the membership in the International Organization of Supreme Audit Institution – INTOSAI and European Organization of Supreme Audit Institutions – EUROSAI.
4. International and regional cooperation

The State Audit Institution of Montenegro is a full member of International Organization of Supreme Audit Institutions as of 2007 and European Organization of Supreme Audit Institutions – EUROSAI as of 2008. The obligations deriving from these memberships demand continued activities and participation in the work of these organizations and their working groups.

The State Audit Institution of Montenegro in the reporting period continued with the intensive international cooperation, implemented through bilateral gatherings, visits of the representatives of international organizations to the Institution, exchange of experiences with representatives of Supreme Audit Institutions from the region, specialized training programs with the aim to improve auditing practice and apply highest international standards in this area.

Representatives of the Institution have participated at several conferences and symposiums during the year, organized by UN/INTOSAI, Network of Supreme Audit Institutions of the Candidate Countries and Potential Candidate Countries for the Membership into the EU, Regional Anti-Corruption Initiative (RAI) and USAID, Directorate-General for Budget of the European Commission, in order to comply with international obligations and intensify international cooperation.

With respect to the savings measures, the Institution has not followed up other international events abroad except for those financed by the organizer.

Numerous activities have been performed in cooperation with GTZ, above all in area of program budget and human resources management in supreme audit institutions. As part of the implementation of those and other projects, GTZ has organized several workshops and study tours.

The State Audit Institution and State Prosecutor’s Office in cooperation with OSCE mission to Montenegro and Anti-Corruption Initiative Directorate have prepared a draft guideline for criminal charges stemming from auditing procedures. The preparation of this document was initiated with the recommendation of the Organization GRECO, and it relates to the legal obligations of the State Audit Institution in relation to filing of criminal charges in case the auditing procedure shows there is a reasonable doubt that a felony has been committed; in all with the aim to provide training to auditing stuff.

The work and functioning of the State Audit Institution was center of reporting attention of referent international institutions.

International organization SIGMA during 2007 and 2008 has assessed the work of the State Audit Institution and made a report about it. The purpose of the report, in addition to making an independent assessment on the performance of the Institution, was to give recommendations for possible changes and improvements in further work of the Institution, with the aim to maximally comply with international standards and the best EU practices. The report of the Organization outlines that the improved work of the State Audit Institution has provided viable information to the Parliament in performing supervising function. SIGMA has also stated that the State Audit Institution should continue developing its capacities in performing audit of the public funds consumption as regards lawfulness and efficiency.

European Commission, through SIGMA / OSCE has performed annual evaluation of the state of the system of central administration in countries of Western Balkan, with the aim to elaborate progress report. On this ground, SIMGA / OSCE have lead the talks with representatives of the State Audit Institution on several occasions, especially in aspects of the public procurement, with the aim to implement requests of the internal market of the EU in public procurements area and improvement of the legal and operational surrounding of the public procurement system in Montenegro.
National Democratic Institute for International Affairs has made a Report on progress evaluation of Montenegro for access to the European Union. The report on transparency and responsibility in the management system of Montenegro also provides following evaluations:

“The Report of the State Audit Institution on the Budget Accounts for 2007 provides most detailed information, and according to general opinion, it represents a significant improvement compared to reports from previous years, meaning that this authority established four years ago is gaining in its maturity, including the Audit Report of the Ministry of Defense and Railways of Montenegro JSC.”

“Improved work of the State Audit Institution has provided especially important information to the Parliament in performing its supervisory function, which will certainly develop in the forthcoming years. The State Audit Institution needs to continue developing its capacity to perform the audit of the public resources expenditures as regards legality, efficiency and effectiveness”.

Meetings with representatives of the European Commission are also important for the international cooperation. The aim is to introduce European Commission with reforms, improvements and implementation of the financial control in the public sector.

As far as accession of Montenegro to the European Union is concerned, numerous meetings with Directorate-General for the Budget have been held, as well as with SIGMA. The role of the State Audit Institution in the establishment of the Audit Authority for IPA Funds in Montenegro has been discussed. Namely, there are special constitutional and legal limitations in respect of the decision that the State Audit Institution performs audit of IPA funds, above all due to the conflict of interests and necessity to respect the independence of the institution. Representatives of the European Commission have presented solutions from international practices as far as auditing of IPA funds is concerned in countries potential candidates or members of the European Union.

The attitude of the State Audit Institution of Montenegro is that the most optimal solution would be to position the above-mentioned authority outside the State Audit Institution. This was the attitude fully supported by the representatives of the Directorate-General for Budget and SIGMA. This is why we believe that, in case the Independent Audit Authority is formed outside the State Audit Institution, the Institution should participate by providing audit personnel and training services, which would be regulated with the adequate agreement between the Government and the Institution.

The Institution is determined to continue in the following period the undertaken activities relating to international cooperation and in that way create additional opportunities for continuous exchange of experiences and the best practices in area of public sector auditing.

5. Cooperation with German Organization for Technical Cooperation – GTZ

The State Audit Institution of Montenegro has continued with intensive cooperation with the German Organization for Technical Cooperation GTZ, which results in the implementation of a new project “Program Budget” in 2009. Economics, Finance and Budget Committee of the Parliament of Montenegro, Ministry of Finance of Montenegro and State Audit Institution participate in this project. To support Ministry of Finance in implementation of the reform of the budget system in Montenegro (development of the program budget), member of the Senate of the State Audit Institutions is a participant of the working group in this project. GTZ has organized several workshops and study tours with the aim to efficiently implement this project.
German Organization for Technical Cooperation – GTZ has continued with the program of expert advising and education of the audit personnel in the State Audit Institution in the economy, efficiency and effectiveness audit. Several seminars and workshops with acclaimed representatives of the German Federal Court of Audit have been held on this topic.

6. Human Resources Management

The Institution has created conditions for exercising its legal authorities through drafting and adoption of regulatory framework.

By the Book of Rules on Internal Organization and Systematization of Employees’ Posts, 66 positions were systematized. 52 posts include audit jobs, while 14 go to the administration. The average number of employees in this reporting period amounted 42. 30 people work in audit sector, 12 in administration. 6 persons were accepted as apprentices, with high education.

The Institution continued with its activities on continuous training of the state auditors and administrative staff in order to create professional and expert staff for undertaking auditing activities, and all of that in accordance with the law and international standards. Training Program was made in cooperation with German Organization for Technical Cooperation (GTZ), which provided for the training of the management staff, state auditors and for a general training intended to all the employees in the Institution. Part of the training intended for specialization of the management staff and state auditors was financed by German Organization for Technical Cooperation (GTZ), while the general training program was realized through the Human Resources Management Authority of Montenegro.

To train persons responsible for management and allocation of budget funds for period October 2008 – October 2009, The State Audit Institution, i.e. Commission for State Auditor State Exam has organized exams for licensing of state auditors, as stipulated by the Rule Book on the Way Exam for State Auditors are Passed (“Official Gazette of the RMNE”, No. 23/07). In the reporting period, the status of the state auditors was granted to 10 civil servants, and some of them are employees in other state authorities and institutions.

Within the “Program for professional training of civil servants and state employees for 2008”, Human Resources Management Authority has engaged, even this year, representatives of the SAI as lecturers in seminars included in this Program.


During the reporting period, several seminars were held under the auspices of the Institution, with experts for certain areas coming from the Federal Republic of Germany as lecturers.

Seminars covering the following topic were held:

- Planning of the pilot project for the Human Resources Management Authority and planning of the pilot audit of the Payments and Allocation of Residence Taxes;
- Comment of the Audit Report on the Republic Pension and Disability Insurance Fund; Comment of the Audit Report on Veterinary Directorate; Comment of the Audit Report on the Ministry of Defense; defining terms and types of audit with the aim to improve Guideline on Work Methodology of the State Audit Institution.

- Workshop for planning activities in 2009 with the State Audit Institution, Project: PBA;

- Pilot Audit in Human Resources Management Authority – results of the field work and reporting and Pilot Audit of the Payments and Allocation of Residence Tax – results of the field work and reporting;

- Defense of the IDEA software

- Informative workshop on conducted performance audits and systematization of field work with special emphasizes on psychological and other aspects;

- EUROSAI recommendations for performance audits, in regard to the provision of information, field work, data collection techniques, interviews, questionnaires, field experiments, secondary analysis;

Human Resources Management Authority of Montenegro, has organized numerous general trainings with following topics:

- Public procurements,
- Office management,
- Computer courses (MS Windows, Internet, MS Word),
- EU skills
- EU working groups meetings,
- Training of apprentices for work in state authorities,
- Implementation of the Law on Confidentiality of Information,
- Implementation of the Program Budget,
- User Information System.

The State Audit Institution shall continue cooperation with GTZ, and it shall determine topics for training of auditors with participation of GTZ experts.

8. IT system

The Institution continued developing IT system, in order to create conditions for more efficient auditing, data processing, faster information search and better exchange of data during the audit. IT system of the Institution provides a substantial safety in data storing and information on the audit.

Pursuant to the Agreement on Implementation of Software solution for document management and automatization of business processing in auditing, presentation of the IT system has been conducted, and it has been determined that the conditions have been met for the IT system (DMS) to become operational. DMS of the State Audit Institution is partly donated by the German Organization for Technical Cooperation (GTZ). DMS of the State Audit Institution comprises of the module for document management and processing during the auditing procedure and modules for office management. In May 2009 basic training of all employees for work with DMS of the State Audit Institution has been conducted.
Except for the standard software installed in all computers of the State Audit Institution Adobe Acrobat Pro software has also been installed. The Institution is using the software of the Canadian company Caseware called IDEA, intended for gathering, analyzes and sampling of the audit data.

All computers in the State Audit Institution have Catalogue of Provisions – registry and texts of the regulations in force and other documents installed, as well as Catalogue of Municipal Regulations – registry and text of municipal regulations and other documents.

9. Planned activities of the Institution and final remarks

As the Institution participates in the process of Montenegrin accession to the EU, it will continue with the implementation of the best international practices and standards, it will influence more efficient management of the public finances and their monitoring, i.e. exercising legal authorities in reporting on the budget implementation and rational use of the funds allocated to the authorities/institutions audited, conditions of the state property and loans taken and guarantees given through the year. In particular, the Institution shall commit to giving recommendations for changing and amending the laws in cases where there is evidence that the existing laws have or may have negative effect or may not lead to reaching the planned results.

Necessary development prerequisites are further normative activities within the Institution, drafting of the national auditing standards and regulations of the Institution and harmonization of the way and methodology of work with the EU standards.

Regional and international cooperation, being of a long-term interest to the Institution, shall be fostered by exchanging knowledge and experiences, and launching and participating in the regional initiatives and joint projects.

Apart from continuing with institutional building, the Institution’s task in the forthcoming period shall be to inform, in a transparent manner, the Parliament, Government and citizens on managing funds and property, subject to the audit. To this end, the Institution shall in 2010, determine further development directions and active positioning, with specific tasks defined and all of that in order to fulfill its main mission.

Taking into consideration the achievements made so far as well as the present moment in the development of the overall economic and legal system in Montenegro, we believe that the institutional framework for a quality external control of the public finances has been established, i.e. preconditions for establishing a strong, competent, independent supreme external audit institution have been created. By increasing Institution’s capacities, the resources dedicated to the public finance control shall be increased, as well as the full responsibility of the audited entities.

Constitutional positioning of the Institution, being an independent and supreme state finance and property audit authority, and its work and development, shall contribute to having the Institution support by its work and advice, the increase in transparency, legality and efficiency in the control of the work of audited entities and public funds’ expenditures.