



MINISTRY OF FINANCE OF MONTENEGRO



July - September, 2015

BULLETIN **XXXVI**

Ministry of Finance of Montenegro
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dr Radoje Žugić



We are aware of the fact that we are now in a very important and, I dare say, ambitious development stage, both in terms of activities conducted at the national level, which are largely related to the start of the implementation of capital projects, and in terms of widening the scope of action internationally



Introduction:

Economic Development - Strategic Goal

While awaiting a new budgetary year, the Ministry of Finance in cooperation with relevant institutions has prepared the Montenegro Development Directions 2015-2018 to serve as a framework for defining measures the implementation of which will contribute to more exact and transparent monitoring of all developmental components.

Recognizing the long-term development of the quality of life of citizens as a strategic goal, the Government has identified four priority development sectors (tourism, energy, agriculture and rural development, and manufacturing industry) in the agenda for the coming period, which will enable the creation of a solid economic foundation and provide the momentum for rapid growth and development. Providing additional incentives in these sectors, through the reform processes shall be a generator of positive impulses to stimulate new energy and

identify areas for more adequate and more complete evaluation of all our numerous resources.

We are aware of the fact that we are now in a very important and, I dare say, ambitious development stage, both in terms of activities conducted at the national level, which are largely related to the start of the implementation of capital projects, and in terms of widening the scope of action internationally. In this regard, I am putting a special emphasis on the need for greater openness of our economy in all segments, because this is an essential precondition of strengthening its competitiveness. Economic openness of a small country such as ours, certainly, requires even greater and stronger efforts, which can best be achieved through the directions of EU and NATO integration, as a kind of insurance policy not only economic, but also of national investment. In this sense, we must rely on our European policy, as well as to reco-

gnize the role of European partners in several directions and shapes. Opportunities for cooperation are many, theoretical and practical, advisory and expert and financial. With quality and clearly conceptualized programming platforms, and with the support of international organizations, in an innovative and sustainable way, encourage the creation of new values and create a more favourable environment for further improvement. In this context, we must be aware of all the instruments available to us, and be willing to listen and accept any new mechanisms that would allow us more optimally exploit our potential.

In this context, IPA funds are particularly important development segment, and it is our intention to use this mechanism even better and more efficient in the future, with the aim of providing a higher degree of realization of our development needs. On the path to follow, it is imperative to ensure the greatest possible transparency and mobilization of the whole society, and to encourage their active participation in all forms of cooperation with the international community. In this connection, Development Directions have been one of the bases for identifying projects to be financed by IPA funds in the period 2014-2020.

For the purpose of harmonization with EU standards and requirements and being predominantly driven by the interests of Montenegro, the policy areas have been identified successfully, priorities defined and a set of in-

vestment developmental measures proposed. On that path, also, the said document with concrete projects and financial structure was the base for programming investments at the state level, and establishing a direct link between resources and development priorities. Bearing in mind that the key precondition for achieving growth is reflected in an appropriate selection of the most profitable and productive economic investment, multiplicative-related and long-term tangible benefits, the focus of the Government in the forthcoming period shall be exactly on the selection of investments of such scope and such character.

While recognizing the sensitivity of the upcoming transitional period and all the challenges associated thereto, both in terms of internal, as well as external influences, and with the progress that we continue to make in the field of Euro-Atlantic integration, and results that are recognized daily, with grounded optimism we look to the future dynamics of overall economic and social development.

Radoje Žugić, PhD
The Minister of Finance
in the Government of Montenegro



mr Snežana Mugoša

Overview of Public Expenditures at the Local Level for the period January-June 2015

Pursuant to provisions of Article 74 of the Law on Local Self-Government Financing, the municipalities are required to present to the Ministry of Finance the data on planned and actual revenues and expenditures, as well as on budget borrowings on quarterly basis, not later than within 30 days from the end of quarter. Based on the submitted reports, the Ministry of Finance prepares the Report on Public Expenditures at the Local Level for a specific period.

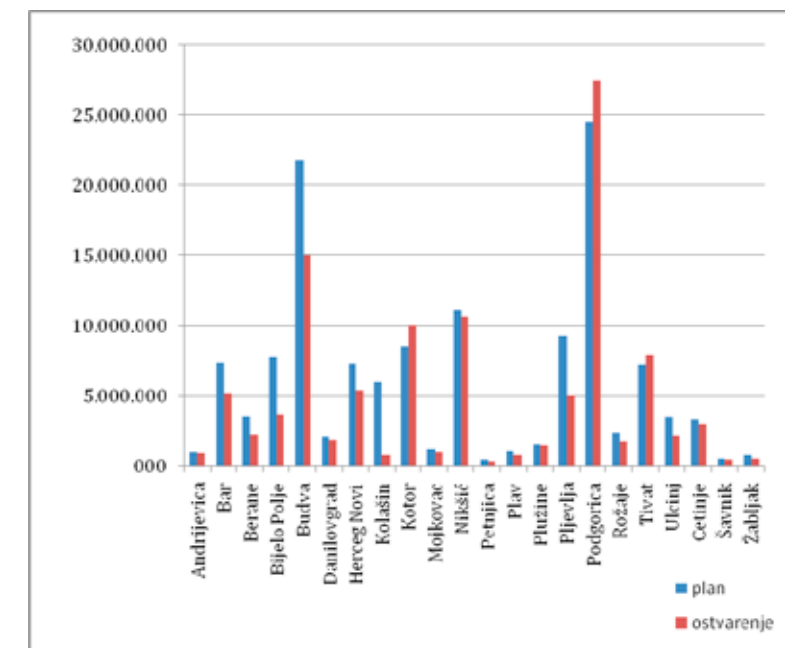
Danilovgrad	2.07	1.84	88.79
Herceg Novi	7.28	5.38	73.98
Kolašin	5.99	0.81	13.57
Kotor	8.48	10.03	118.25
Mojkovac	1.20	0.98	81.83
Nikšić	11.14	10.66	95.74
Petnjica	0.44	0.30	68.38
Plav	1.05	0.80	75.95
Plužine	1.49	1.46	97.89
Prijevlja	9.27	5.00	53.94
Podgorica	24.52	27.47	112.07
Rožaje	2.40	1.70	71.11
Tivat	7.26	7.92	109.21
Ulcinj	3.47	2.15	61.86
Cetinje	3.32	2.97	89.57
Šavnik	0.52	0.45	86.68
Žabljak	0.77	0.53	68.70
TOTAL	132.06	107.45	81.36

REALISATION OF RECEIPTS OF THE LOCAL SEL-GOVERNMENT FOR THE PERIOD JANUARY-JUNE 2015

The receipts of the local self-government for the period January - June 2015 are realised in the amount of 107.45 million euros, or 81.36% of the plan for the stated period.

The following table provides an overview of planned and actual municipal budget receipts in the first half of 2015.

Municipality	Local self-government receipts in the period January-June 2015 (in mill €)		
	Planned	Actual	% of realization
Andrijevica	1.01	0.95	94.06
Bar	7.39	5.15	69.70
Berane	3.53	2.22	62.82
Bijelo Polje	7.75	3.70	47.79
Budva	21.75	14.97	68.83

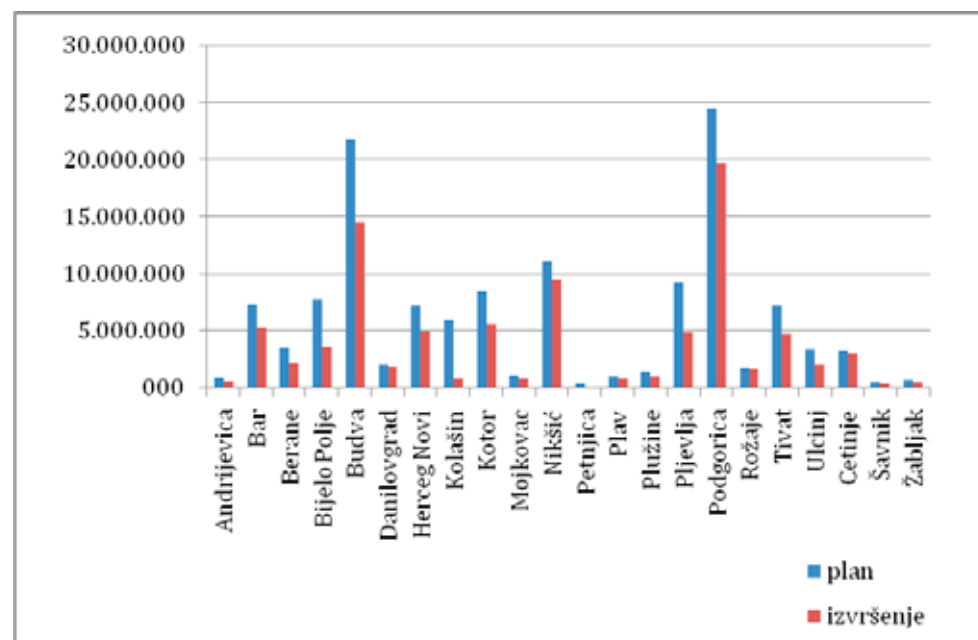


REALISATION OF EXPENDITURES OF THE LOCAL SELF-GOVERNMENT FOR THE PERIOD JANUARY-JUNE 2015

The expenditures of the local self-government for the period January - June 2015 were executed in the amount of 88.61 million euros, or 67.52% of execution compared to the plan for the same period.

The following table provides an overview of planned and actual municipal budget receipts for the first half of 2015:

Municipality	Local self-government expenditures in the period January-June 2015 (in mill €)		
	Planned	Executed	% of execution
Andrijevica	0.88	0.65	73.40
Bar	7.39	5.33	72.12
Berane	3.53	2.15	60.95
Bijelo Polje	7.75	3.60	46.44
Budva	21.75	14.55	66.87
Danilovgrad	2.07	1.82	87.96
Herceg Novi	7.28	5.01	68.90
Kolašin	5.99	0.78	13.07
Kotor	8.48	5.61	66.10
Mojkovac	1.14	0.79	69.57
Nikšić	11.14	9.50	85.32
Petnjica	0.44	0.15	35.16
Plav	1.05	0.79	75.36
Plužine	1.49	1.00	67.14
Pljevlja	9.27	4.84	52.25
Podgorica	24.52	19.69	80.32
Rožaje	1.75	1.70	97.31
Tivat	7.26	4.76	65.64
Ulcinj	3.47	2.06	59.25
Cetinje	3.32	2.97	89.60
Šavnik	0.52	0.36	69.89
Žabljak	0.77	0.48	62.59
TOTAL	131.24	88.61	67.52



OUTSTANDING LIABILITIES OF THE LOCAL SELF-GOVERNMENT AS AT 30 JUNE 2015

According to the data provided by the municipalities and submitted to the Ministry of Finance, the total outstanding liabilities of the local self-governments as at 30/06/2015 amounted to 97.99 million euros.

Outstanding liabilities of the local self-government as at 30 June 2015 (u mill €)	
Andrijevica	0.02
Bar	9.79
Berane	10.98
Bijelo Polje	4.81
Budva	30.44
Danilovgrad	3.18
Herceg Novi	0.65
Kolašin	4.86
Kotor	0.43
Mojkovac	0.44
Nikšić	2.94
Petnjica	0.00
Plav	3.20
Plužine	0.00
Pljevlja	2.38
Podgorica	0.00
Rožaje	0.00
Tivat	0.02
Ulcinj	12.19
Cetinje	11.01
Žabljak	0.18
Šavnik	0.45
TOTAL	97.99

Ms Snežana Mugoša, MA
 Head of the Directorate for monitoring budgets of local governments,
 regulatory agencies and public companies and other implicit budgetary commitments

Šefika Kurtagić



New legislative alignment with state aid rules

It is beyond doubt that Article 9 of the Constitution of Montenegro stipulates that ratified and published international treaties and generally accepted rules of international law form an integral part of the internal legal order. However, the provision gets a whole new meaning when it comes to state aid rules. In fact, although the rules of international law shall have supremacy over national legislation and are directly applicable when they regulate the relations differently than the internal legislation, for the state aid it was necessary to interpret the provision in its full meaning. Although the constitutional provision provides for the supremacy of internationally accepted rules in case of conflict with national legislation or in the absence thereof (in this case the Stabilization and Association Agreement), for the national legal system "to absorb" the new so-called "soft" rules of the European Union in the right way, it was necessary to modify and/or adopt a new set of laws in the field of state aid.

Speaking of the state aid as a general rule at the EU level, the truth is that the Member States of the European Union cannot grant state aid. The prohibition of state aid

allocation has been established by the Treaty of Rome of 1952, and passed down to the present day. Today, the general prohibition of state aid granting exists in the Treaty on the Functioning of the European Union (TFEU), Article 107. However, TFEU defines a certain number of exceptions to this prohibition. In cases where state aid is allowed by the European Union law, it may be granted under strict conditions.

The concept of state aid is essential for the understanding of the EU competition law. For a country to enter the "club of elected" or become an EU member, it must fully apply the state aid rules, including the full implementation of the EU soft law in the field, already during the stabilization and association process. According to the national definition, the state aid represents expenditure, reduced revenues or loss of state or municipal assets that distort or threaten to distort free competition in the market, which may also affect trade between Montenegro and the European Union by favouring certain economic entities, products or services on the market.

In the Montenegro Screening Report for this chapter,



the European Commission concluded that the Montenegrin system at the time (2012) did not reflect the EU rules as a whole when it comes to state aid. The European Commission determined that, although the Montenegrin legal framework contains the main provisions that apply to this area (rules on regional aid, rules on aid for research and development, rules on aid for the environment, rules on aid to small and medium-sized enterprises, rules on aid for training and rules on aid for employment, aid for rescuing and restructuring, etc.), they do not represent a firm support for the creation and maintenance of a healthy competitive environment.

In the context of its European agenda and the road to EU membership, Montenegro in 2014 adopted the Decree on amendments to the Decree on more detailed criteria, conditions and manner for granting state aid, which for the first time introduced the possibility of direct application of the soft *acquis* (guidelines, frameworks, communications, notices, etc.) in the Montenegrin legal system.

The Regulation stipulates that the rules on state aid laid down by the regulations of the European Commission, European Council, European Parliament and the European Court apply to Montenegro, while the Ministry of Finance, as the authority competent for the state aid policy in Montenegro, has the power and duty to issue a decision by which to establish a list of these rules and publish the same in an integral text in Montenegrin language, and thus integrate them in the Montenegrin legal system.

As a result, the Ministry of Finance adopted the Regulation on the list of state aid in August 2014, which in a

certain way represents a set of documents - rules and procedures that define the granting of state aid in specific areas. The Regulation is updated regularly (every six months) and follows up dynamics of the institutions of the European Union in adopting state aid rules.

Through the harmonization of the entire legal system with the state aid rules, Montenegro is on the right track towards meeting the EU requirements in this area. Of course, this ultimately means a positive impact on the further process of negotiations when it comes to this chapter.

Šefika Kurtagić
Head of State Aid Department



Jasna Ilić Bošković

Montenegro, looked through the Instrument for Pre-Accession Assistance - IPA Perspective I

Instrument for Pre-Accession Assistance is a unified form of support of all the previous instruments (CARDS, SAPARD, ISPA, PHARE). IPA is an instrument for pre-accession assistance of the European Union (EU) to countries, potential candidates and candidates for EU membership, and a comprehensive support in the process of European integration, both in the area of financial support, as well as in the field of technical and expert support to reforms. It represents grant support on allocated funds from the state budget of Montenegro intended for reforms, meaning that the received and successfully spent money does not have to be repaid.

IPA in Montenegro is implemented through two perspectives:

1. IPA Perspective I, covering the period 2007-2013;
2. IPA Perspective II, covering the period 2014-2020.

IPA Perspective I

IPA Perspective I (IPA I) is carried out through a number of separate parts, or components, each of which is implemented through individual projects or other forms

of support (depending on the beneficiary and the areas for which the funds are intended).

1. IPA I in potential candidate countries and candidate countries is implemented through five components:
2. IPA Component I Assistance in Transitional and Institution Building Process;
3. IPA Component II Cross-border Cooperation;
4. IPA Component III Regional Development;
5. IPA Component IV Human Resources Development; IPA Component V Rural Development.

Persons and authorities in charge of managing IPA funds, depending on the IPA components are:

1. The Competent Accrediting Officer (CAO) is responsible for issuing, monitoring, suspending or withdrawing the accreditation to the National Authorizing Officer. The Minister of Finance is appointed as CAO.
2. The National Authorizing Officer (NAO) is responsible for the effective functioning of the management and control systems under IPA and for the financial management of the IPA programs. Deputy Minister of Finance is appointed as the NAO.

3. National IPA Coordinator (NIPAC) is responsible for the overall strategic planning process, coordinating programming, monitoring the implementation, evaluation and reporting in relation to the IPA programs, ensuring partnership between the European Commission and Montenegro and the close link between the general accession process of Montenegro to the EU and the use of pre-accession assistance under IPA.

4. Strategic Coordinator is responsible for coordinating support available through the IPA III and IV.

5. The Program Authorizing Officer (PAO) runs the implementing agency and is responsible to NIPAC for contract enforcement, and for the legality and regularity of the NAO transactions. He is appointed by the NAO, with the approval of NIPAC.

6. Senior Program Officer (SPO) manages the project implementation unit within the ministries using IPA assistance. He is appointed by the PAO.

7. National Fund (NF) is a Directorate set up in the Ministry of Finance.

8. Operating Structures have been established depending on the IPA components/programs.

9. Head of Operating Structure (HOS).

IPA I is being implemented in two ways: in a centralized and decentralized way.

Centralized way to manage EU pre-accession funds means that the whole process, from contract to payment of funds to beneficiaries is under the jurisdiction of the European Commission, i.e. European Commission Delegation in Podgorica.

Decentralized management of EU pre-accession funds involves self-management of the funds by the Montenegrin institutions, proving that the Montenegrin authorities have the capacity and clear legal framework for the use of IPA funds.

IPA Component I - Assistance in Transitional and Institution Building Process

Projects under this component are intended for state authorities, with the aim of improving the existing legislation and harmonization with the EU acquis.

Established operating structure consists of:

NIPAC office whose main task is programming and monitoring at the program level, i.e. the overall allocation. The office is set up within the Ministry of Foreign Affairs and European Integration.

Project Implementation Units (PIU) are in charge of

programming and monitoring at the project level, i.e. preparation of project descriptions, nomination and monitoring of the successful implementation of projects. Units are set up in: the Ministry of Interior, the Ministry of Sustainable Development and Tourism, the Ministry of Health, the Ministry of Transportation, the Ministry of Economy, the Ministry of Agriculture and Rural Development, the Ministry of Labor and Social Welfare, the Ministry of Education, the Ministry of Justice, the Ministry of Finance and the Ministry for Information Society and Telecommunications.

Implementing Agency (IA) whose primary function is the implementation i.e. contracting and payment of EU funds. Directorate for Finance and Contracting of the EU Assistance Funds (CFCU), which is part of the Ministry of Finance, is defined as the implementing agency.

Internal Audit Units (IAU) are set up in the relevant ministries and have responsibilities of internal audit of both national and EU funds.

Permission to use the funds from the IPA Component I have countries with the status of potential candidate for EU membership. Montenegro is a country that was a potential candidate for EU membership until December 2010, by which it has acquired the right to apply for EU funds.

IPA Component I is implemented through centralized way of managing EU funds.

IPA Component II - Cross-border Cooperation

The objective of this component is to strengthen good-neighborly relations with the countries in the region. In this context, Montenegro jointly with every border state, defined the structure and priorities of cooperation through operational programs. Beneficiary of available resources through this component was mainly the NGO sector.

Established operating structure consists of:

Head of Operating Structure (HOS) whose primary function is the coordination and provision of proper functioning of the overall structure. The body responsible for coordination of EU assistance is set up in the Ministry of Foreign Affairs and European Integration.

Body for cross-border cooperation (CBC) whose task is programming and monitoring at the program level. The body is set up in the Ministry of Foreign Affairs and European Integration.

Implementing Agency (IA), the CFCU is defined as the implementing agency.

Permission to use the funds from the IPA Component II have countries with the status of potential candidate for EU membership.

IPA Component II is implemented through centralized way of managing EU funds.

Montenegro is participating in the eight cross-border programs: Bilateral programs: Albania - Montenegro; Bosnia and Herzegovina - Montenegro; Croatia - Montenegro; Serbia - Montenegro; Montenegro - Kosovo and Multilateral cross-border programs: IPA Adriatic Cross-Border Cooperation; South East Europe Program; Mediterranean Program.

The programs are implemented through periodic publication of calls for proposals, the so-called calls for projects.

IPA Component III - Regional Development

This component is intended for infrastructure projects in the fields of environment and transport. Beneficiaries are line ministries and local governments. The Ministry of Sustainable Development and Tourism is responsible for defining the objectives and priorities of the operational program.

Established operating structure consists of:

Head of Operating Structure (HOS), whose primary function is the coordination and provision of proper functioning of the overall structure. It manages the body responsible for the Operational Program (BROP), whose main task is programming and monitoring the successful implementation of the entire program. It is set up in the Ministry of Sustainable Development and Tourism.

The bodies responsible for priority/measure (BRPM) whose main task is programming and monitoring at the level of priority/measure. The bodies are set up within the Ministry of Sustainable Development and Tourism and the Ministry of Transportation.

Implementing Body (IB), the Directorate of Public Works (DPW), which is part of the Ministry of Sustainable Development and Tourism, is defined as the implementing body.

Permission to use the funds from the IPA III component have only countries with candidate status for EU membership, after the adoption of appropriate strategic documents and decentralization of the system of governance.

Montenegro, by receiving the candidate status for EU membership in December 2010, qualified for the use of

funds from the IPA III component. The basis for the use of the funds is the Operational Program, adopted by the Government of Montenegro on 29 March 2012, after which it was adopted by the European Commission on 7 December 2012.

The total value of the Operational Program amounts to € 26,169,624 and is divided to 85% of IPA funds, 15% of national co-financing, so that IPA funds amount to € 22,235,679, and national co-financing € 3,923,947.

The main objective of the Operational Program is to improve living standards and environmental conditions in Montenegro, in accordance with national policies and strategies, as well as EU policies and standards.

Planned funds will be used to implement projects in the following priority axes: Priority Axis I: Improving environmental management systems; Priority Axis II: Improving the transportation system, by encouraging environmentally-friendly transport modes, with special emphasis on the improvement of the railway infrastructure in order to provide better quality services; Priority Axis III: Technical assistance to support the implementation of the Operational Program Regional Development.

Accreditation for decentralized management of IPA funds by the European Commission for IPA Component III, was awarded on April 25, 2014. It was followed by the signing of the Financing Agreement, on 28 October 2014, by the Director General of the Directorate General for Regional and Urban Policy of the European Commission (DGREGIO) and December 5, 2014, by NIPAC. The signing of the Agreement created formal conditions for the use of the component.

IPA IV - Human Resources Development

IPA Component IV is intended for the development of the labor market and reducing unemployment. Beneficiaries are relevant ministries, bureaus and NGOs. The Ministry of Labor and Social Welfare is responsible for defining the objectives and priorities through the Operational Program.

Established operating structure consists of:

Head of Operating Structure (HOS) manages a body set up in the Ministry of Labor and Social Welfare.

The bodies responsible for priority/measure (BRPM) set up in the Ministry of Labor and Social Welfare, the Ministry of Education and the Ministry of Science.

Implementing Body (IB), the CFCU is defined as the implementing body.

Qualified to use the funds from the IPA component IV are only countries with candidate status for EU membership.

Montenegro, by gaining the candidate status, qualified for the use of IPA Component IV. The basis for the use is the Operational Program, which was adopted by the Government of Montenegro on 29 March 2012, after which the European Commission adopted it on 18 October 2012.

The total value of the Operational Program amounts to € 6,568,240 and is divided to 85% of IPA funds, and 15% of national co-financing, so that the IPA grant amounts to € 5,583,000, and the national co-financing to € 985,240.

The main objective of the Operational Program is to promote the sustainable development of human resources, modernization and development of the education system for training and research in Montenegro in accordance with the policies and standards of the EU, with a special focus on youth employment, in order to prepare Montenegro for the implementation and management of the EU Cohesion policy.

Planned funds will be used to implement projects in the following priority axes: Priority Axis I: Effective and inclusive active labor market measures; Priority Axis II: Enhancing skills, knowledge, and competencies for employability and competitiveness; Priority Axis III: Enhancing social inclusion; Priority Axis IV: Technical Support.

Accreditation for decentralized management of IPA funds by the European Commission for IPA Component IV was awarded on 28 July 2014. This was followed by the signing of the Financing Agreement, on 31 October 2014 by the Director General of the Directorate General for Employment, Social Affairs and Inclusion European Commission (DGEMPL) and on 5 December 2014 by NIPAC. The signing of the Agreement created formal conditions for the use of the component.

IPA V - Rural Development

IPA Component V is intended for rural development, i.e. supporting the development of production and capacity of farmers and companies involved in agriculture. Ministry of Agriculture and Rural Development is responsible for defining the objectives and priorities of the IPA Rural Development (IPARD).

Established operating structure consists of:

Managing Authority (MA) responsible for the preparation, monitoring and evaluation of the IPARD program. Basic competence of this authority is to define the pri-

orities and measures i.e. the drafting of the IPARD. The authority is set up within the Ministry of Agriculture and Rural Development.

Implementing Agency (IA), the Directorate of IPARD payments, which is part of the Ministry of Agriculture and Rural Development, is set up as the implementing agency.

IPA component V includes support to candidate countries in the field of agriculture and rural development, in order to prepare for managing EU Common Agricultural Policy.

Montenegro, by gaining candidate status for EU membership, acquired the right to use the funds from the IPA Component V. However, additional preconditions for the use of these funds followed (the adoption of appropriate strategic and programming documents) as well as the fulfillment of the conditions for approving the Request for entrusting budget execution for indirect management system through the IPA perspective II. The Request for entrusting budget execution was sent to the Director General of the Directorate of Rural Development of the European Commission (DGAGRI) in August 2015. Funds from the IPA component V are redirected to the IPA Component I, thus to avoid losses due to failure to receive accreditation for decentralized management.

Jasna Ilic – Boskovic
Senior Adviser at the Directorate
of the National Fund
The Directorate of State Treasury

Management of administrative capacities within the financial perspective IPA I and IPA II in the period 2013 – 2015



Velibor Damjanović

We are witnessing that the concept of the IPA (Instrument for Pre-Accession Assistance) has long ceased to be a mystery for all actors of Montenegrin society and daily life which abounds with information on projects funded by the relevant EU institutions. However, very rarely we may be faced with a situation when one needs information on the fundamental principles of IPA and recognizes the right door on which to knock at the right time.

Civil servants who fully or almost fully spend their working hours in harmonizing national and EU legislation, build institutional capacity and improving the knowledge of specific topics, with the aim of creating an efficient environment for concrete financial results and state benefits, are often unfairly excluded or less visible when received IPA funds, through the implementation of basic procedures and rules, find an address in Montenegro. Defined structures, reporting channels and the established system of accountability create an atmosphere of clearly superior norms and standards when it comes to the obligations that Montenegro should meet with the ultimate goal of providing financing the construction of kindergartens, plants, creation of quality cross-border cooperation or training of young farmers and incentives to agricultural production.

The concept of IPA administrative capacities is linked to the ability of the state and public administration to fulfill its common, legal obligations, but also the level of willingness to accept tasks that are inevitable within the further course of the integration and the forthcoming

reforms which the country expects, in this area. In this regard, the administrative capacity of IPA institutions is still a challenge, in terms of reaching European standards, therefore, it is necessary to make a cross-section of recent results, current situation and future plans for strengthening human resources potential, according to the needs and strategic documents.

All future EU Member States must establish a clear and coherent institutional framework. This step means certain, established and recognized structures at national and regional levels required by the prescribed legal acts, as well as the establishment of an implementation system with clear definition of tasks and responsibilities of the bodies involved. The institutional framework also requires establishing an efficient mechanism for inter-agency coordination, and the involvement and consultation with a wide partnership of organizations in the preparation and implementation of appropriate support programs.

During the creation of an institutional framework, it is necessary to create adequate administrative capacity and ensure the same in all relevant structures. This step includes the hiring and training of qualified and experienced personnel, and the establishment of measures for the retention and motivation of such personnel. In this context, the national authorities have established necessary organizational arrangements, adapted procedures and organization charts and prepared accompanying documents which represent to all designated staff at the IPA level a 'guide in the course of finding the best solu-

tions and the most effective application in practice'.

Montenegro is aware what administrative capacities are required under EU cohesion policy. In this context, the national authorities, as far as possible, adapted structures involved in the decentralized management of IPA, to the rules and procedures governing the EU Cohesion Policy. Workload Analysis have been conducted and made, for all linear bodies by IPA structures to assess the need for the necessary human resources, with the plan to review these needs on an annual basis. National authorities constantly emphasize the importance of staff retention policy, which ensures the constant presence of professional staff in the structures of the IPA. Financial and other forms of incentives are considered, which would be implemented to this end. Several projects aimed at training in the use of EU funding have been conducted, or are in the implementation phase and are mostly funded through IPA. Since 2006, IPA has significantly contributed to the preparation of Montenegro for decentralized management within all of its components. Also, in cooperation with bilateral partners, we conducted training courses that included all phases of project management.

At this point, 150 civil servants are involved in the implementation of the IPA perspective I and II. Certain officers are covering several positions in different structures. Taking into account the size of the Montenegrin administration, as well as the need to maintain continuity, and use to the maximum the experience gained, those involved in the implementation of the IPA perspective

will be engaged in activities relating to IPA perspective II (2014-2020). These individuals are trained to effectively perform the duties in accordance with the provisions laid down in the relevant legal documents and manuals of procedures, developed in all segments of the structures. The number of officers employed in certain structures at present is the following:

- Component III - 47 officers

Of this number, 41 officers have signed a work contract for an indefinite period. Compared with the situation at the end of 2013, the number of employees working in this structure increased by 6, while the number of employees with permanent employment for an indefinite period increased by 14.

- Component IV - 57 officers

Of this number, 46 officers have signed a work contract for an indefinite period. Compared with the situation at the end of 2013, the number of officers working in this structure increased by 6, while the number of employees with permanent employment for an indefinite period increased by 8.

Regarding the IPA II perspective, the number of employees is as follows:

- Annual program for the 2014 - 73 officers

Of this number, 58 officers have signed a work contract for an indefinite period.

- The cross-border program Montenegro - Kosovo and

Montenegro - Albania - 37 officers

Of this number, 30 officers have signed a work contract for an indefinite period.

- Rural development - 53 officers

Of this number, 46 officers have signed a work contract for an indefinite period.

All employees who work on the IPA tasks are required to accomplish the work stipulated in the work plan, made by all the institutions involved in the implementation of the IPA tasks. Workload Analyses are regularly updated and based on them a recruitment plan developed, in case the necessity arises for the same. Officials at the commencement of a job sign a document with a structured description of the duties to be carried out.

It is the duty of all employees on the IPA task to adhere to the Code of Ethics, which defines the standards of conduct for civil servants and employees. On the basis of this code, the officials sign a declaration of impartiality and confidentiality in the work with the IPA tasks. Heads of the IPA bodies are obliged to provide an adequate plan to replace an absent staff. Also, with the eventual abandonment of working position, the officials are obliged to carry out the handover of documents that were in their possession while, in taking over new position, they must pass adequate initial training with the appointed mentor. Assessment of the need for training in specific areas should be developed together with self-assessment of knowledge and capacity on a personal basis of each official.

It is extremely important that managers of IPA bodies recognize the sensitive job positions within the government to ensure the proper maintenance of records of trainings conducted on the basis of relevant training plans, and to appraise employees at the beginning of the calendar year for the previous year. All IPA bodies appointed officers who are responsible for the management of possible irregularities in the system, evaluation, risk management, manuals management, the implementation of IT policy and public and visibility policy.

In accordance with the recommendations of EC auditors (recruitment plans, the minimum number of employees required for the division of tasks, etc.) all bodies carry out activities related to further employment and the conclusion of contracts for an indefinite period of time.

Directorate of the National Fund at the Ministry of Finance constantly monitors the development of administrative capacity and informs the European Commission through quarterly progress reports.

Experience with many years of programming and ma-

agement of EU-funded projects as well as the number of employees involved in the implementation of the IPA are currently, to a certain extent, limited. However, Montenegro has prepared a strategy for capacity building in the context of management and implementation of the IPA, in the coming period 2014-2016. Bodies identified in the IPA structures also conducted a series of trainings on the management of EU funds in the framework of the IPA, including regarding the function of the external and internal audit. These training sessions in 2013 and 2014 intensified and covered all employees who are currently involved in IPA. At this point, it is necessary to provide appropriate training for officers of authorities at the local level, especially those involved in the implementation of IPA programs.

National authorities must ensure the continuity and stability of human resources that have or will benefit from measures aimed at strengthening capacity. It is necessary to ensure a reasonable policy of retaining staff, which recognizes officers who will gradually acquire experience in managing and implementing EU funds. In that sense, Montenegro has to implement efficient and attractive career planning policy and wage policy for civil servants in all bodies involved in IPA.

National authorities have also established an Audit Authority, which is functionally independent body of all actors in the management and control of EU funds (IPA, Structural Funds on Montenegro's EU accession and other EU funds), whose task is to confirm the efficacy and stability of the system of management and control of the EU funds in Montenegro and compliance with relevant EU and national regulations to ensure the legality and regularity of transactions and to protect EU interests and national interests.

When it comes to strengthening the capacity of the internal audit, the national authorities have appointed internal auditors in all state authorities at the central level, who cover all of the operating structure of IPA. The Ministry of Finance conducted a certification program for internal auditors in the public sector, with the help of expert organizations from the member states. Additional support for the development of internal audit methodology, as well as regular procedures and training for internal auditors is provided through assistance from the IPA funds.

The Ministry of Finance in cooperation with the Ministry of Foreign Affairs and European Integration plans to improve and strengthen the existing capacities dealing with the implementation of the pre-accession assistance, and to use them as a basis for work in structures that deal with the management of structural funds. This im-



plies constant training and capacity development at all levels of the IPA structure before accession, which will be continued after the start of operation of the system for managing these funds.

Montenegro will adopt a strategy for the development of organizations that will be involved in the system of structural funds, and will define adequate human resources management policy (including retention policies for personnel and career planning system in the structures), conduct a training needs analysis, define employment plan for new officials in accordance with the conducted analysis of workload and prepare a training plan for officers involved in the management structure. These measures will ensure continuous strengthening of the capacity and willingness of the structure for the operational functioning of the system for the management of structural funds. In addition, assessment of the lack of

administrative capacity will be carried out and identified vacancies in bodies/institutions, which will be involved in the financial management and control.

Implementation of plans will lead to the recognition of new forms of cooperation, significant visibility of IPA "environment" and increased level of interest for all related topics. Consequently, human capacities at the level of IPA will play a significant role in the EU accession process.

Velibor Damjanovic
The officer in charge of monitoring systems
Independent Advisor II
Ministry of Finance / Directorate for National Fund

Informing the Public about the use of IPA Funds



mr Božidar Lopičić

One of the aspects of the effective utilization of financial assets available to users of a country candidate for membership in the EU, from the Instrument for Pre-Accession Assistance (IPA), is the well-informed public, i.e. information available to future beneficiaries about the possible use of IPA support.

For easier understanding of IPA assistance, we should note that previously existing support programs included:

- PHARE (Poland Hungary Assistance for Reconstruction of the Economy), which included measures to support institutional strengthening and supporting investments, and measures to support economic and social cohesion,
- ISPA (Instrument for Structural Programme for Pre-Accession), which included support in the fields of transport and environment,
- SAPARD (Special Accession Programme for Agriculture and Rural Development) has focused on support for agriculture and rural development,
- CARDS (Assistance for Reconstruction, Development and Stabilization) program, which was adopted in 2000 and was intended to help the reconstruction, development and stabilization. The primary objective was to provide financial and technical support to the countries of the Western Balkans, and this program has been replaced by Echo and Recover.

European Agency for Reconstruction and Development had implemented the CARDS program. With its completion in 2007, the mandate of the aforementioned Agency has expired, which required the need for further gradual building up and development of national capacities for the management of EU funds. The program was aimed at the development and reconstruction of the Montenegrin infrastructure.

In early 2007, the European Union begins a new financial period in which the above programs are replaced by a unique program called IPA Instrument for Pre-Accession Assistance, which is intended for candidate countries and potential candidates for EU membership.

Enlargement of the EU in many ways increased economic and social disparities within the EU by entrance of new states in this alliance. The beneficiaries of structural and cohesion funds, which are considered the old EU member states, are invited to contribute to the development of new EU member states. The budget for cohesion policy has a share in the EU budget of more than a third of the total budget, and thus represents the second largest expenditure in the EU budget. For this reason, this policy has a strengthening tendency in the new financial perspective for IPA II (2014-2020). The policy is based on the idea that it is necessary to reduce the gap between rich and poor regions of Europe, which would equalize and even balance the effects of the European integration.

In order to help clarify the financial prospects for the use of IPA funds, it is necessary to provide detailed guidance on the concept of the Instrument for Pre-accession Assistance - IPA. Primarily, the IPA program is intended for candidate countries and potential candidates for EU membership. The main objective of this financial instrument is to provide and assist beneficiary countries to harmonize progress with the standards and policies of the European Union.

Pre-accession financial assistance is focused on facilitating the integration process with the requirements set in the status of a candidate country for EU membership. Candidate country for EU membership is presented with the terms of use of financial resources from European funds in the Operational program and financial agreements for various forms

of support.

Publication of information on beneficiaries of EU funds must be in accordance with the above-mentioned agreements and therefore the names of end-users and recipients need to be published, their location, assigned amounts, as well as the nature and purpose of the measures implemented. These data are published in accordance with the standard way of presentation, at a designated and easily accessible places, a particular web page of the IPA support beneficiary country. Period in which project information is released is the first half of the following calendar year, after the closure of the budget year in which funds have been assigned to the beneficiary countries.

Information about users of the funds is provided through a system of financial transparency. Data for a particular financial year shall be entered in the system of the European Commission at the end of June next year. It should be noted that the beneficiary of the IPA funds i.e. support, is obliged to publish information on the extent of support and purposes of those funds, and to ensure that this information i.e. data are comparable internationally.

The aim of the activities related to the visibility, transparency, communication, is to show how specific operations, i.e. activities/actions contribute to defined objectives, which were selected for funding. The implementation of the public policy and visibility provides information to the public, and thus provides for a wider responsibility for the effective use of IPA funds.

To be able to recognize aid provided by the EU, as well as its impact on the citizens of the beneficiary countries of IPA assistance, the successful implementation of the visibility policy is of essential importance. The goal of such acti-

vities is to ensure the development of the awareness of the public about the activities/actions of the EU. In this way, transparency and visibility will create a consistent image of the measures of the EU, through IPA support. The European Commission and a candidate country for EU membership negotiate a coherent plan of action regarding the visibility and communication policy. The aim of this plan is to make the information on programs and operational activities of IPA support available to the public. In this way, the results set by the coherent plan would be achieved, and EU activities promoted.

It should be noted that all projects funded through the IPA support program focus on common issues concerning the environment, civil society, regional development, equal opportunities and anti-discrimination in terms of gender and minorities, minority human rights of vulnerable groups, including the displaced and persons with disabilities. In addition, IPA projects make it possible to strengthen administrative capacity, as well as to provide conditions of good governance, providing a mechanism of monitoring, control and evaluation. In addition to these activities another, no less important, refers to a campaign aimed at raising public awareness on the importance of providing adequate ways to combat corruption, to encourage additional civil liability.

The purpose of informing the public on the use of IPA funds is to provide citizens with relevant information and acquaint them with mentioned topic, which will ensure that funds allocated through the IPA support are properly channeled to the end user.

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The Directorate of State Treasury



Ivana Maksimović

N + 3 rule as an indicator of the efficiency of utilization of EU funds

Montenegro, as a candidate country on its path towards the European Union faces challenges in the management of pre-accession funds, in order to be prepared for the accession.

Challenges of managing EU funds, both in the pre-accession phase, and upon accession, can be described through three objectives:

- maximize the use of funds in order to comply with the time limits set for their spending (i.e. N + 3 rule) and thus prevent the automatic suspension of the money earmarked for a particular program. This goal could be briefly presented as a message to the competent authorities: “Spend funds quickly.”

- minimize refund, or reduce the number of irregularities in connection with which Montenegro will be obliged to refund funds. This goal, in short, could be presented as a message to the competent authorities: “Spend funds properly.”

- maximize the impact (effectiveness) and value (efficiency), in using the funds, or this could be represented as a message to the competent authorities: “Spend funds in the best way.”

- Experience in other countries has shown that the problematic phase in the implementation of projects follows after the introduction of decentralized or indirect control, as then there is a slower contracting and the risk that the money be returned to the European Commission increases.

It's never too early to start planning to avoid the risk of automatic suspension of funds.

As one of the indicators of the success of the management of funds, the European Commission considers the data on how long it takes to consume resources in adequate time and for this purpose uses the so called Rule N + 3.

N + 3 rule is a flexible deadline for spending the available funds, where the “N” is a program year for which certain funds were allocated. This means that the funds allocated for example for 2012 (N) must be spent up to 31 December 2015 (+3). “Automatic suspension of funds” appears upon the expiration of the period within which the funds must be spent, i.e. unused portion of the allocation is returned to the EU budget.

The fulfillment of N + 3 is a challenge posed before a country, in order to increase the accountability of all actors in the process of EU funding.

One of the main problems why the funds intended for candidate countries as well as Member States remain unspent is a lack of mature projects with complete project documentation.

In fact, the fulfillment of the N + 3 rule is affected by a number of factors relevant to the different stages of the process (programming and implementation), and thus can be grouped in:

Factors influencing the N + 3 rule before project approval:

- The late approval of the operational program
- The late start of the program
- Too few project applications
- The high rejection rate of project applications
- Too small projects (with a small project value)
- Factors influencing the N + 3 rule in the implementation phase of projects
 - Late start of project implementation (slow contracting procedures and/or lack of mature projects)
 - External factors (in the case of infrastructure project works conditioned by the weather)
 - Slow implementation of the project (the low rate of withdrawals and submission of payment requests)

These are of course only the possible, but not the only factors that may affect the fulfillment of the N + 3 rule, which means that during the implementation of the operational program and projects others may also appear.

It is important to emphasize that in the first year of implementation, due to the advance payment of a portion of funds to the contractor, it is the easiest to achieve objectives of the deadlines imposed by the N + 3 rule, but as the effect of advance payments decreases, so does the risk of automatic suspension of funds in future years increases, meaning that the automatic suspension of funding is a challenge that increases over the duration

of the program. It is therefore important, when planning activities, to make a detailed analysis of the risks in order to timely identify and monitor risks that lead to the automatic suspension of funds.

The most important thing is to pay attention to the commitment of all stakeholders, and the establishment of realistic plans and projections of spending, which constitute the basis for monitoring the (non)fulfillment of the N + 3 rule. Unrealistic projections lead to unrealistic objectives and therefore the failure to fulfill set goals.

Implementation of Operational Program Regional Development and Operational Program Human Resources Development 2012-2013 (IPA Component III and IPA Component IV), was launched in December 2014, after the signing of the financial agreements for the individual components.

As the operational programs relate to 2012 and 2013, this means that Montenegro meets with the N + 3 rule for 2015. Specifically, N + 3 rule, i.e. the objective for 2015 for Montenegro amounts to 1.3 and 1.1 million euros, in components III and IV, respectively. So, if until 31 December 2015 amounts demanded from the European Commission are smaller than the set, it will mean that there will be an automatic suspension of funds, i.e. financial allocation for these programs will be reduced by the amount of unused/unregistered amounts.

It is important to say that Montenegro is faced with a group of risks that may affect the fulfillment of the N + 3 rule for an individual program, before the implementation of projects, i.e. that due to the late signing of the financial agreements, the time frame for meeting the goal of the N + 3 rule for 2015 is extremely limited, keeping in mind that the procedures that precede the signing of the agreement and its implementation are demanding and time-consuming. However, the national authorities take all necessary measures to minimize the risk of automatic suspension of funds to the greatest extent possible and to meet the set goals.

Ivana Maksimovic
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Directorate of National Fund



Valentina Bojović



Reporting on internal financial controls in the public sector of Montenegro

The system of internal financial control is a recognizable relationship of the use of public funds and should be seen as a help and support to managers in the public sector to improve the quality of public services, transparency in the use of taxpayers' resources and increase in the confidence in public sector entities.

An important element in the process of financial management is the system of financial reporting. Reliable financial reporting is a mechanism to control the use of financial resources and a basis for better decision-making.

Central Harmonization Unit of the Ministry of Finance prepares and submits to the Government for consideration and adoption the Consolidated Report on Internal Financial Controls in the Public Sector. The purpose of the report is to inform the Government on the activities undertaken by the public sector entities and CHU on the improvement and development of internal financial control system in the public sector, as well as planned activities in the further development of this system.

The report was prepared on the basis of individual reports of budget users at central and local level, and the reports on the implementation of activities in the establishment and development of financial management and control and the work of internal audit in the public sector in Montenegro.

Analysis of the questionnaires indicates that some subjects judged that they very successfully established their financial management and control and continued to further upgrade them. Through the process of reviewing the quality of financial management and control, the CHU assesses the quality of management and provides recommendations for further improvement of the system.

CHU performs analysis of the quality of financial management and control, and in 2014 in certain public institutions it observed clear, interlinked objectives, supported by strategies of the ministries and the budget, as well as a formal delegation of responsibility and authority for the use of budget funds committed for the identified programs. Based on the perception of quality, the Ministry of Defense is a good example of an organization with a well-established system of financial management and control and serves as an example of good practice for the establishment of managerial accountability in the public sector, while at the local level, the best example is the Capital City of Podgorica.

In the establishment of internal audit in the public sector based on the concept of decentralization, there has been significant progress. The following table provides an overview of the progress made:

Year	Number of auditors	Number of audits	Recommendations given
2011	31	59	72
2012	44	68	269
2013	46	101	419
2014	60	114	454

The number of auditors at the end of 2014 is by 93.54% higher than the number of auditors at the end of 2011, while the number of audits increased by 93.22%. The number of recommendations has increased more than 6 times compared to the year 2011. In 2011, 72 recommendations were given, while in 2014, there were 454 recommendations given.

Despite these results and the fact that 67 budget beneficiaries ensured the performance of the internal audit function, which represents over 96% of government spending, a large number of small budget beneficiaries did not provide coverage of the internal audit function.

In accordance with the law, internal audit units were set up in the Ministry of Finance, the Ministry of Sustainable Development and Tourism, as well as the capital city of Podgorica and municipalities of Niksic, Berane, Pljevlja and Rozaje.

CHU performs analysis of the quality of internal audit, and in 2014, the CHU reviewed the quality of internal audit in accordance with the methodology prescribed in the Regulation on the methodology of reviewing the quality of internal audit in the public sector, and found that the audit reports are largely prepared in accordance with the prescribed methodology and standards in all units, altho-

ugh there is a difference in the report quality. One of the most important areas in which the quality of the report needs to improve is the quality of writing style with an emphasis on clarity and definiteness to the findings, as well as the clarity and applicability of recommendations.

Based on data obtained from self-assessment for the financial management and control, review of the quality of financial management and control and internal audit, reports on internal audit, there has been a visible progress in the system of internal financial controls in the public sector of Montenegro, which has been recognized by the EU Directorate General for Budget, in the European Commission Montenegro Progress Report for 2014 and the SIGMA Report on the management of public finances.

Most public sector entities initiated activities to improve the management and control systems. However, it is necessary that all budgetary users improve system management responsibilities through the definition of objectives, performance indicators, monitoring and evaluation of the implementation of the set goals. All this will contribute to a clearer delegation of authority and accountability, the establishment of risk management and reporting system.

Although the coverage of expenditure of budgetary resources by the internal audit function is of a very high percentage, there is however, a major drawback in filling capacity of internal audits. Further filling of the internal audit units, improving the knowledge and skills of internal auditors represent major challenges in the coming period.

Valentina Bojovic
Senior Internal Auditor



Mladen Vlahović

New regulations in the field of auditing - compliance with EU Directives

The main objective of the Directive in the field of accounting and auditing is the convergence or harmonization of the legislations of individual Member States. Directives set requirements on the Member States as to the result to be achieved, but they still leave the possibility of independent choice of form and means of their internal legal arrangements to achieve these common goals. If Member States fail to incorporate adopted directives into national legislation, or fail to do so fully or do it in delay, participants in judicial proceedings may directly refer to its provisions before the national courts. Candidates for membership in the EU must, before accession to the EU, incorporate into their legislation all the requirements of directives, regulations and other legal acts of the EU, as it must be done by the existing member states in the time required for compliance.

DIRECTIVE 2013/34/EU

Directive 2013/34/EU provides that the financial statements of public-interest entities, medium-sized and

large legal entities must be audited by one or more statutory auditors or audit firms.

The statutory auditor must, in addition to the “classical” audit opinion on the financial statements, express an opinion on whether the management report is in compliance with the financial statements for the same financial year, as well as whether has been prepared in accordance with applicable regulations, and state whether, having regard to the knowledge and understanding of the entity and its environment, he or she has identified material misstatements in the management report, and give an indication of the nature of any such misstatements. This accounting directive partly changed the audit directive (2006/43) in the part referring to the audit report, which now must include the following pieces:

- An introduction which shall, as a minimum, identify the financial statements that are the subject of the statutory audit, together with the financial reporting framework that has been applied in their preparation;
- A description of the scope of the statutory audit which identifies the auditing standards according to

which a statutory audit is performed;

- Audit opinion that can be unqualified, qualified, or an adverse opinion, and which shall state clearly the opinion of the statutory auditor as to:

- a) whether the annual financial statements give a true and fair view in accordance with the relevant financial reporting framework and

- b) where appropriate, whether the annual financial statements comply the statutory requirements (if statutory auditor is unable to express an audit opinion, the report shall contain a disclaimer of opinion);

- A reference to any matters to which the statutory auditor draws attention by way of emphasis without qualifying the audit opinion;

- Opinion on whether the business report is in accordance with the financial statements and whether it is prepared in accordance with applicable regulations, as well

as a statement as to whether the auditor has determined material misstatements in the report.

The auditor’s report must be signed by the statutory auditor. If statutory audit is performed by an audit firm, the audit report shall be signed by at least statutory auditors who performed the audit on behalf of the audit firm. In exceptional circumstances, Member States may decide that those signatures should not be publicly disclosed if such disclosure could lead to imminent and significant threat to the personal security of any person.

Revision of financial statements represents the checking and evaluation of financial statements, data and methods used in their generation and, on that basis, giving an independent expert opinion on whether the financial statements in all material aspects give a true and fair view of the financial condition and operating results of enterprises in accordance with the relevant accounting reporting policy. Directive concerning the revision of acco-

unting statements only defines in which cases the audit of financial statements is statutory and what is perhaps a little unusual, amends audit directive in the part that regulates reporting of statutory auditors. In this connection, we should stress the newly established provisions of the obligation of statutory auditor to give an opinion as to whether the management report is in accordance with the financial statements and is prepared in accordance with applicable regulations, as well as a statement as to whether the auditor found material misstatement in the management report.

DIRECTIVE 2014/56 EU AND THE RELATED DIRECTIVES

Although the legislation in Montenegro is largely in line with EU legislation, Directives make certain changes that have to be implemented through laws and by-laws. The most important changes relate to the system of quality assurance of statutory auditors or audit firms, then the obligation to disclose information through the report on transparency and not least important, the insistence on the independence and objectivity of statutory auditors or audit firms during the audit.

Establishing a quality assurance system of statutory auditors or audit firms is one of the most important obligations of EU Member States in accordance with the Directive. This system must be organized in such a way to:

- Be independent of the statutory auditors and audit firms that are subject to verification,
- Provide safe funding of the quality assurance system and should not be under any undue influence of authorized auditors or audit firms,
- Persons carrying out the examination of quality assurance have appropriate professional education and relevant experience in conducting statutory audits and financial reporting as well as specific training in quality assurance testing, etc.

To increase the credibility and transparency, quality assurance reviews that are carried out in the Union, quality assurance systems of the Member States should be governed by the competent authorities designated by the Member States. Quality assurance reviews are designed to prevent or address potential deficiencies in the manner in which statutory audits are carried out. To ensure that the quality assurance reviews have adequate coverage, the competent authorities, in carrying out such reviews, should take into account the scale and complexity of the activities of statutory auditors and audit firms.

An audit firm, i.e. statutory auditor who audits the legal

entities that Directive classifies as public-interest entities (joint stock companies, banks, insurance companies, etc.) is obliged to disclose a transparency report comprising:

- 1) type of company and ownership structure of the audit firm or statutory auditor;
- 2) a description of the network and its legal and organizational arrangements, if an audit firm belongs to a network;
- 3) a description of the management structure of the audit firm;
- 4) a description of the internal quality control system of an audit firm and a statement by the management on its effectiveness of its functioning;
- 5) the date when last quality assurance review was carried out;
- 6) a list of entities for which an audit firm or statutory auditor conducted the audit during the preceding financial year;
- 7) a statement of independence of audit firms or statutory auditors which also confirms that an internal review of independence compliance has been conducted;
- 8) statement about the audit firm's policy of continuing professional education;
- 9) the financial information and data on the total income of the audit and revenue from additional services that are not related to the audit;
- 10) information concerning the basis for the partners' remuneration.

Montenegro, as a candidate for membership in the EU, in the coming period is to align its legislation (Accounting Law, Audit Law and by-laws) with the provisions of the new directives on accounting and auditing. The preparation of the draft law had involved the representatives of professional accounting or auditing associations and international experts within the project "Capacity Building for Effective Audit Oversight" financed by the World Bank. It is a very complex process of harmonizing national legislation with EU requirements, while at the same time it takes serious professional considerations, especially of those provisions where the directive stipulates that member states (in the case of Montenegro is a candidate country for membership in the EU) can allow or demand some requirements.

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at Central Harmonization Unit



Milica Vuletić

The implementation of the third phase of the project "Citizen involvement in the fight against the gray economy"

Upon successful completion of two phases of the project "Citizen involvement in the fight against the gray economy," the project continued until the end of 2015, thus providing a further contribution of citizens in combating this negative social phenomenon, as well as a chance to raise more funds to finance projects of general public importance, proposed and voted for by citizens.

The public campaign for the promotion of the project is marked by intensive activities at the social network channels (Facebook and Twitter), media representation, and communication with citizens on the ground. Active engagement resulted in a higher number of reports of irregularities, especially during the tourist season, as well as more response at social networks. The focus of the above activities was placed on the further presentation of the main goals of the project, ways to report the gray economy and the possibility of voting for the projects to be financed from funds generated on the basis of the penalties imposed.

The key novelty of this phase relates to the method of voting for projects of general public importance, intro-

duced on October 1, which allowed vote for the projects without the obligation to report irregularities, through Internet portals, as well as in the framework of the so-called Be responsible caravan, which covered the entire territory of Montenegro. The introduction of voting at the information points allowed that, through direct communication in the field, people who do not use information technology get involved in the campaign and contribute to the success of the same.

Of the amount of fines imposed based on the reports of citizens, investments of up to 50,000 euros will be financed, from a list of 11 proposed projects, which in 2014 did not qualify for financial support on the basis of the value of the penalties imposed, according to the rules of the third phase of the campaign, in the amount of 30% of the imposed fines.

Citizens can give their vote to one of the following projects:

1. Purchase of apparatus for mechanical ventilation (respirator) for babies,
2. Construction and equipment for Special Psychiatric

Hospital “Dobrota” Kotor,

3. Equipping the city’s parks and day centers for children with disabilities,

4. Equipping daycare centers for children and youth with disabilities in Bijelo Polje, Mojkovac and Ulcinj,

5. Acquisition of audible traffic signals for people with visual impairments,

6. Support for the elderly on the territory of Cetinje,

7. Project “Safe pensions”

8. Credit line for start-ups for women and youth in less developed areas,

9. Supply of device for composting household waste in Montenegro

10. The establishment of an educational center for waste management in Podgorica,

11. Construction of a shelter for abandoned animals and inns for temporary accommodation for pets.

Since the beginning of 2015 over 150,000.00 euros have been raised for projects of social importance, and fundraising will continue until the end of the project.

In this stage of the campaign, we had the opportunity to share the success of the project with representatives of different sectors from the region. Representatives of the state administration, citizens and non-governmental sector in the Republic of Macedonia visited Montenegro, and through a study visit they learned of the experiences in all phases of the project: Creation of application budiodgovoran, through designing and implementing of campaigns for citizen participation in combating the gray economy. In addition, the project was presented at the conference “Participation of citizens in public policy and decision-making”, held in Split, which particularly welcomed the commitment of the Government of Montenegro in creating projects which involve citizens in creating and implementing policies.

In the marking of the 150th anniversary of the founding of the International Telecommunication Union ITU, the Ministry for Information Society and Telecommunications nominated the project for the award within the international competition of the projects that are most responsible for improving the quality of life through ICT innovation and the promotion of the objectives of the International Telecommunication Union.

As the public is already aware, the Government of Montenegro implemented project in cooperation with the Faculty of Electrical Engineering in Podgorica and the Office of the United Nations Development Programme (UNDP) in Montenegro, enabling citizens to in an easy and fast

way, through mobile application, at the site www.budiodgovoran.me and call centers of the Tax Administration and the Directorate for Inspection Affairs, draw attention of the competent authorities on irregularities in the field of issuing fiscal bills, undeclared work, irregularities in bathing sites and violations of consumer rights. With the aim of encouraging citizens to take more participation, the basic idea of the project is strengthened by the decision to allocate part of the proceeds from fines imposed based on citizens’ complaints, to finance projects of general public importance, proposed and voted for by the citizens themselves.

During the first two stages of the campaign, acting on citizens’ complaints, inspection services have issued misdemeanor orders valued at over 1.1 million euro, which provided funds in the amount of over 540 thousand euros needed to finance 11 projects of general public importance.

In accordance with the plan of the campaign, the closing conference of this project phase is planned for 8 December 2015, when contracts on donations will be handed to fund projects that by the end of voting deserve maximum support of the citizens.

Milica Vuletic

**Department for public education,
the Tax Administration of Montenegro**

**The coordinator of the project “Citizen involvement
in the fight against the gray economy”**



Miloš Popović

Growth ≠ Development

The media and persons in public appearances, often put the terms of economic growth and economic development in the same context, without deeper knowledge of the differences between these concepts, and they often occur as a phrase in the „Growth and Development” platitude. This text seeks to simply present the difference between these two concepts, in the belief that even non-economists, after reading it, will know the essence of the concepts, and will be familiarized with the main objective of the economic policy of Montenegro - the growth of living standards i.e. society development.

Economic growth is a measure of the quantitative growth of the total economic activity of a country.

To measure the level of the economy in a territory most commonly used indicator is the gross domestic product - GDP, which measures the total value added of produced intermediate and final goods and services within the country for which the indicator is measured. In addition to the basic indicators, gross domestic product per capita (GDP per capita)¹ is used in the analysis, and gross domestic product per capita based on purchasing power parity (GDP per capita PPP)². As such, GDP per capita and growth rate of GDP³ are one of the most important indicators for measuring the success of economic policy, as they represent the basis on which several countries in the world can be compared, regardless of their size and population.

In defining the objectives of economic policy, the emphasis is generally placed on the long-term economic growth rate, which is nothing more than averaged economic growth over many years. This definition is based upon the cyclical nature of economic activity, and, accordingly, the so-called business cycles in the development of a country.⁴

1 - GDP per capita is gross domestic product divided by the average number of inhabitants in that year.

2 - GDP per capita PPP is GDP per capita measured based on purchasing power parity, which corrects indicators for exchange differences between currencies and measures how much purchasing power has 1 \$ (used as a currency in which this indicator is denominated) in different countries of the world and accordingly counts the final value of this indicator

3 - There are nominal and real growth of GDP and they measure increase in the value of goods and services produced in an economy. Nominal growth rate shows how the value of gross domestic product in a year increased compared to the previous year. The disadvantage of this measure is that it includes the cost of the current year, so that the nominal rate of economic growth can occur merely by increasing the prices of goods and services without actual increase in production. Therefore, an indicator that eliminates the effect of rising prices on growth measure of the total product is the real growth rate of GDP, which measures the value of goods and services produced, but in the prices of the base year (previous) years, thereby eliminating the impact of the rise/fall in prices (inflation) and, on the side of the analysis, it gives an indicator that gives more insight into if there was really an increase in production of goods and services.

4 - Business cycle is a sinusoidal behavior of growth rate during a specified period (5 - 10 years). This phenomenon is explained by stages of so called overheating of the economy (economic growth exceeding the potential/prospective economic growth is the level of economic growth achieved at full employment of the capacity of the economy - full use of physical capital and full employment of human capital) and of the stages of recession in which the economy records negative growth rates. One complete cycle of growth and recession is called the business cycle, and, as such, it significantly affects the nature of the economic policies that are adopted in the country in a given period.



So, in quantitative measuring of the economy in a country, we are talking about indicators of the level of income, the level of investment, savings, employment, consumption, etc. without going into detail nature of these phenomena, their dispersion among citizens, manner and quality of services that the state must provide the citizens (health, education, social security, security, rule of law, etc.). Although it is quite reasonable assumption that states with higher income levels provide quality public services to its citizens, this is not always the case.

Economic development is a measure of the qualitative state of the economy and of society as a whole.

Economic growth and the indicators used for measuring it do not say a thing about the entire corpus of social phenomena, which, as a deviation, may occur in the richest countries. Gross domestic product and all its derivatives do not talk about the level of security in a country, the quality of health services or the situation in the education sector. Income growth does not always mean a fair dispersion of wealth, on the contrary - the developing country very often, with economic growth, face an increase in poverty, meaning that wealth is concentrated in the hands of a minority, and that other economic classes of the same society do not feel the benefits of increase in production value.

As a measure of economic development economic circles now use Human Development Index (HDI), which includes three categories that affect the quality of life of the individual - (a) life expectancy (as a measure of health quality, and, through this, health system), (b) expected and average years spent in the framework of the education system, and (c) the gross national income per capita in PPP (as a measure of decent living standards).⁵

5 - Human Development Index (HDI) was defined by the Pakistani scientist Mahbub ul Haq, with the help of a group of colleagues and Nobel laureate Amartya Sen, as a composite index that better than the indicator of economic growth explains the quality of life of the individual. The Index is published each year in the framework of the report sponsored by the United Nations through its agency, the UNDP (United Nations Development Programme). The index was developed with the aim, according to Haq, "to move the focus of economic policy-making from the pursuit of growth indicators of national accounts towards policies that target individuals".

Graph 1 Relationship of the Human Development Index (HDI) and gross national income as a measure of wealth of a country (GNI per capita PPP)

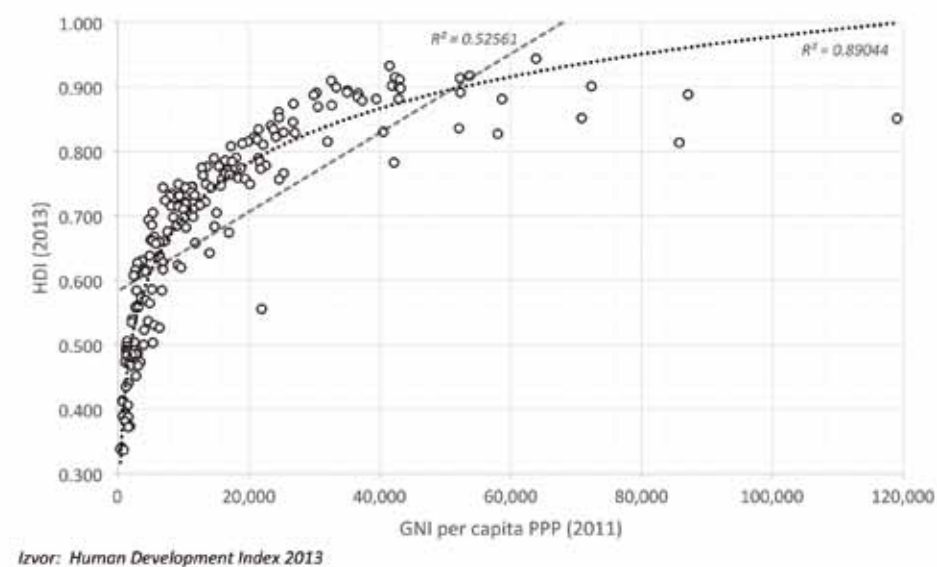


Chart 1 in the best way illustrates the relationship between growth and development. In fact, it's pretty clear that the level of the quality of life, measured by the index of human development, is not perfectly correlated with the wealth of individuals in that society, which also corroborates earlier put forward claim that economic growth does not mean the economic development in each individual case. On the other hand, based on the lineal and logarithmic trend ($R^2 = 0.52$ and $R^2 = 0.89$, respectively) it can be argued with high probability that economic growth and economic wealth create quality prerequisites for the development of a society. Extremely positive correlation was evident to the level of income of 40,000 \$, where in almost every individual case we can say that the increase in income leads to the increase in the quality of life (though not inconsiderable number of states are below the logarithmic trend, in which case the thesis of concentration of wealth can be justified, or rather a lack of redistribution through the channels of the system through which the wider population feels the benefits of economic growth). In richest societies of the world (the level of income of over 40,000 \$) there is a slight downward trend in the levels of income and the index value of human life. Looking at the wider picture, the interpretation of this relationship can be the next - in the lower income levels, even its minimal increase significantly affects the increase in quality of life (providing drinking water, basic health care, primary education process, etc.) which comes with relatively cheap investments, while with the growth of the level of income, lessens its marginal utility and it is increasingly difficult to find the right investments that will increase the quality of life of ordinary citizens.

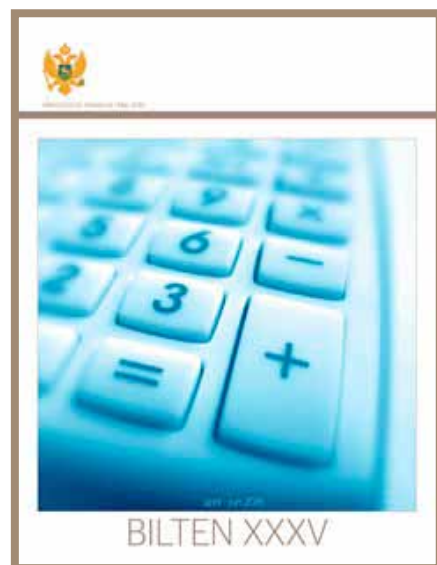
Human Development Index, although conceptually broader than the indicator of GDP, has been criticized for insufficient aspects of life taken into account, such as security and the level of crime, the efficiency of the judiciary and the legal system in the country, employment opportunities, etc. For this reason, but also because of the tendency to find the most appropriate statistical measure of the quality of life of individuals numerous, often composite indices were created that can serve as a more appropriate measure for defining economic, social, and other reformist policies in a society. In this way, the index of social progress has been made (Social Progress Index - SPI), an index that 'measures' happiness (Gross Domestic Happiness), Genuine Progress Indicator, etc. The general disadvantage of these composite indices is insufficiently broad base from which to draw data, which, again, are not methodologically aligned, the quality of which varies depending on the country, and in many developing countries occurs the complete lack of a statistical base that can support the preparation of such standards. All in all, GDP as a statistical indicator has a lot of shortcomings if we want to gain insight into the totality of a society, but, at the same time, it represents a very good basis for use in research because of their methodological precision, wide distribution and application in almost all countries of the world.

Milos Popovic, Advisor III of the Directorate for Economic Policy and Development



Ivona Mihajlović

Info web Activities of the Ministry of Finance in the period 1 July to 30 September 2015



17 July 2015 – The Ministry of Finance published Bulletin XXXV



23 July 2015 - Statement by the Director General of the Directorate of Budget in the Ministry of Finance Nikola Vukicevic, after the Cabinet meeting for the adoption of Communication on public finances at the local level

“... This Communication deals primarily with local governments beneficiaries of the Equalization Fund, and the municipalities facing problems with overdue

obligations and current liquidity. Through the adopted mechanism, the government wishes to provide opportunity and further support primarily the municipalities in a difficult financial situation, and provide long-term financial sustainability through a remediation plan. In cooperation with the Union of Municipalities it made a cross-section of the financial status of municipalities, showing that about 65 million euro of debt could be reprogrammed. What is new compared to the previous Communication is the additional information that the Government requested the Ministry of Finance, when preparing a draft budget law 2016 to foresee the issuing of government guarantees for financial consolidation of local governments in a way that collaterals from municipalities to the central government would become the funds of the Equalization Fund (to the extent that each beneficiary has), and the total guarantees would amount to 70 million euros. By 2016, this way local governments would refinance existing obligations towards financial institutions, primarily local, given that these are loans burdened with very high interest rates from 8 to 12-13%. At the session we have not considered loans that are taken in international institutions as they are long-term and development-oriented loans, taken under very favorable financial conditions. In addition to the refinancing of liabilities to financial institutions, it provides for the settlement of liabilities to suppliers and the implementation of social programs. By 2016, in addition to the issue of guarantees, the government will guarantee to banks by means of Equalization Fund and, if the latter is exhausted, but in our opinion, we will not get into that danger, the government is ready to take advantage of what is available under the Budget Law as a last mechanism, the funds of the current budget reserve. On the other hand, local governments are required to conclude an agreement with the Ministry of Finance, which will later be confirmed by the Government, which will specify obligations that local governments must fulfill in order to ensure financial sustainability, and the same will be a prerequisite for guarantees to be issued by the government or the Ministry of Finance. Parallel to this process, the Ministry of Finance continues to negotiate with the World Bank, which has expressed its readiness to provide technical support to the recovery of local governments, and we have positive signals that the World Bank will consider the possibility to enter into specific financial arrangements to heal local governments, but that it is still early to say.”

14 August 2015 - The voting for projects of common interest under the third phase of the campaign “Be Responsible”

We wish to inform the public that the voting for the projects of common interest under the third phase of the campaign “Be responsible. It depends on you. Underground Economy 0%.” began on August 17 and will last until 5 December 2015. Funds raised during this phase of the campaign will be allocated for financing of individual proposals that will receive the largest number of votes. Upon successful completion of two phases of the campaign, during which citizens reported over 5,000 irregularities in the grey economy, which resulted in issuing fines in value of over 1,100,000.00 euros, the campaign will continue until the end of 2015. This will allow for further fundraising to finance projects of general public importance, proposed by citizens. In addition to this campaign, citizens will still be able to point to the irregularities of the gray economy and vote for projects, via the website budiodgovoran.me, through mobile applications or call centers of the Tax Administration and the Directorate for inspection activities. The amount of fines imposed based on the reports of citizens, will be used to finance investments from a list of the remaining 11 proposed projects that were not eligible for financial support on the basis of the value of the penalties imposed in 2014, and according to the rules of the third phase of the campaign, the amount of 30% of the issued fines will be used. In addition to these methods of voting, in this phase of the campaign, citizens will be allowed to vote at campaign information points throughout Montenegro during September and October this year, and the campaign will be completed on December 5 by votes at information points in Podgorica. All adult citizens of Montenegro are eligible to vote at the information points, regardless of whether they reported irregularities in the gray economy or not, so that every citizen can vote only one time. Information about the location of information points will be published in a timely manner during the period of voting.

- Projects to vote in the third phase of the campaign are as follows:
- Procurement of apparatus for mechanical ventilation (respirator) for the Baby Center for Neonatology, Institute for Children’s Diseases, Clinical Center of Montenegro;
- Construction and equipping of the part of the HI Spe-

cial Psychiatric Hospital “Dobrota” Kotor;

- Equipping the city’s parks and daily centers with furniture for children with disabilities;
- Equipping daycare centers for children and youth with disabilities in Bijelo Polje, Mojkovac and Ulcinj;
- Purchase of audible traffic lights for people with impaired vision;
- Supporting the elderly in the territory of Cetinje;
- The project “Safe Pensions”;
- A line of credit for start-ups for women and young people in the less developed areas of Montenegro;
- Supply of container for composting household waste in Montenegro;
- The establishment of an educational center for waste management in Podgorica;
- The construction of shelters for abandoned animals and inns for temporary accommodation for pets.

So far over 125,000.00 euro was collected for projects of common interest under the third phase of the campaign. Fundraising will continue until the end of the public campaign on 5 December 2015. Campaign “Be responsible. It depends on you. Gray Economy 0%” is realized within the project “Citizen Involvement in fighting gray economy,” which is implemented in collaboration of the Government of Montenegro, Faculty of Electrical Engineering in Podgorica and the Office of the United Nations Development Programme (UNDP) in Podgorica.



16 September 2015 - Statement by the Director General of the Directorate for Budget Nikola Vukicevic, at a press conference on the occasion of the presentation of the project “Monitoring the local budget in Montenegro - www.mojgrad.me.”

“... Mojgrad.me portal is a project of budget data visualization in Montenegro, which was created within the Monitoring Local Budgets project, as a result of coope-

ration between the NGO Alternativa Institute, the United Nations Development Programme and the Ministry of Finance. Recognizing the importance of improving transparency and accountability in the management of municipal finances, the Ministry of Finance has responded positively to this request and endorsed the upgrading of the portal that serves as a platform for monitoring local budgets in Montenegro. In some ways this activity coincided with the activities conducted by the Ministry of Finance, together with all the local governments, in the process of restructuring their debts, to bring the local level finances in a viable position in the long run, both for the local governments and the general public finance system. Regarding the portal, it should be noted that the process of integrating all available data in one place and presenting them in an easy and visually appealing way, could make it possible to present local budgets to the citizens of local governments, but also all those who are interested in public finances at local level. Upgrading the portal primarily involves supplementing the portal with information from the period from 2012 to 2015, followed by visualization of data relating to specific budget lines, which are of particular interest to citizens, as well as visualization of the strategic plan of the Capital. Local governments and their businesses are an important segment of the overall fiscal system, i.e. the entire public finance system, and hence the condition and trends of public finances in local governments significantly affect fiscal sustainability, financial stability, as well as the quality and prospects of economic development on the level of local governments, as well as on the state level as a whole. Financial stability and sustainability of local governments are one of the priorities and key tasks of the Ministry of Finance, which is why it recognized the importance of supporting such projects. What makes this project particularly interesting is its interactivity, and the use of new technologies, in order to allow greater access to information, thus affecting the encouragement of public service efficiency. It therefore entails the possibility for citizens and financial markets to favorably assess the financial position of the government, and we hope in the future the financial position of a local government, which will in a future period appear as players in international financial markets. Recognizing the importance of a proactive approach in this field, the Ministry of Finance will continue to invest in projects of social importance, which will ultimately contribute to the stren-

gthening of trust in the work of state administration. “



24 September 2015 - Statement by the Director General for Central Harmonization in the Ministry of Finance mr Ana Krsmanovic, after the Cabinet meeting on the occasion of the adoption of the Draft projection of macroeconomic and fiscal indicators for the period 2015 - 2018, and establishing the Draft Law on Amendments to the Law on Excise Tax

“Through the document “Projections of macroeconomic and fiscal indicators for the period 2015-2018,” projections of spring growth of gross domestic product have been updated, as well as other macroeconomic indicators relevant to the macroeconomic policy in the medium term. These projections will serve as a basis for preparing the budget for 2016, as well as economic reform program for 2015-2018, which the Government of Montenegro each year submits to the European Commission. Montenegro, as an open economy, is susceptible to influences from the immediate and extended environment, that is, international markets that affect the growth of economic activity. The growth of economic activity in the medium term, based on high inflow of investments and high investment activity, both domestic and foreign direct investments, along with the continued implementation of structural reforms, should contribute to increased competitiveness of the Montenegrin economy and sustainable growth of the economy. The projections take into account developments on the world market, which inevitably have an impact on the economy in Montenegro. The IMF in July 2015 published updated projections with growth of the world economy declining by 0.1 percentage points compared to the previous projection, so that the growth of the world economy in 2015 will be 3.3 percent. Reduced projected growth rate in 2015 at the global level contributed to the lower growth rates in North

America, a slight increase in the European Union and further lower than expected economic growth in China this year. The real growth rate in Montenegro in the first quarter according to data of MONSTAT was 3.2 percent, while estimates of the Ministry of Finance show growth of 3.6 percent in the second quarter. The positive impact on growth had all sectors, especially construction and tourism, and on the basis of the information available so far, about the tourist season and the movement of other macro data, the Ministry of Finance estimates that the GDP growth for this year would be 4.3 percent. For the period 2015-2018, the projected average GDP growth is 3.8 percent, which means 4.1 in 2016, 4 percent in 2017 and 3 percent in 2018. In the same period, we expect a slight increase in prices, primarily due to significant investment activities, which are expected in the next year and which will boost economic activity. As far as the fiscal position this year is concerned, budget revenues in the first eight months amounted to 839.8 million euro, which is 23.2 percent of the estimated GDP. Planned revenues in the reporting period amounted to 834 million, so the plan was exceeded by 5.8 million or 0.7 percent. Compared to the same period last year revenues increased by 17.8 million or 2.2 percent. Budget expenditures in the eight-month period this year amounted to EUR 934.8 million or 25.5 percent of GDP, and in comparison to the same period last year were higher by 5.3 percent or 47.4 million, which was caused by an increase in interest expense due to the early repayment of debt, increased capital budget spending by 20.7 million euro and the repayment of liabilities from the previous period. In the first eight months a cash deficit of 95.1 million was recorded or 2.6 percent of the estimated GDP. Regarding trends by the end of 2015, it is expected that budget revenues will amount to around EUR 1.34 billion and will increase by 12.6 million compared to what was planned by the Budget Law, while budget expenditures will remain at the planned level of 1.56 billion euros. The budget deficit for 2015, according to current estimates, will amount to 223.2 million euros or 6.2 of the estimated GDP, which is less than planned by 12.6 million euros.”

**Ivona Mihajlovic,
Public Relations and Free Access
to Information Department**



mr Slađana Pavlović

Leasing Market in Montenegro - Report for the period 1 July - 30 September 2015 –

Market Participants

In the period 1 January – 30 Jun 2015, the Montenegrin leasing market involved six leasing suppliers, four leasing companies as legal entities:

- S-Leasing,
- Porsche Leasing,
- NLB Leasing,
- Hypo Alpe Adria Leasing, as well as

two banks:

- Hypo Alpe Adria banka and
- Prva banka Crne Gore osnovana 1901. godine¹.

Hypo Alpe Adria Leasing and Prva banka Crne Gore osnovana 1901. godine, have not been active in the leasing market in terms of approving new loans during Q2 2015.

In terms of the regulations regarding the leasing market in Montenegro, in the last quarter there were no modifications of the same.

¹ - Prva banka Crne Gore osnovana 1901. godine during 2011 and Q1 2012 was only working on the collection of receivables arising from previous contracts.

Lease structure

As at 30 June 2015, 835 new contracts have been concluded in the leasing market in 6 months, worth a total net value of €9,886,206, with about 76% of contracts concluded during Q2 this year.

Compared to the same period 2014 (1 January – 30 June) the new volumes increased by 42%, with the total lease contract value gaining 17.9%. Three times more leases have been signed compared to Q1 2015.

The average value of contracts concluded in Q2 was € 10.927.

New contracts		2014	2015
Q1	Number	211	204
	Value	2,970,225	2,991,306
Q2	Number	377	631
	Value	5,417,984	6,894,900
Q3	Number	178	
	Value	2,787,213	
Q4	Number	318	
	Value	3,869,270	

Lessees

In terms of the structure of lessees, newly signed contracts with corporate customers accounted for 89.4% of total volume, contracts with individuals for 10.3%, and entrepreneurs for about 0.3% of the total volume. Compared to the same period 2014, there was an evident increase in contracts signed with legal entities (by 95%), while the contracts concluded with individuals dropped. On the other hand, compared to the previous quarter of the current year, there was an evident increase in contracts concluded within all categories. The growth, as so far, was the result of a feature of Montenegro's economy reflected in the significant share of the tourist activity in total economic activity. Therefore, the recorded growth was due to the growth of activity in the preparation for the tourist season.

Table: New leasing volumes by lessees

Lessees		Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Legal entities	Number of contracts	140	289	109	172	146	564
	%	66.35	76.66	61.2%	54.1%	71.6%	89.4%
Individuals	Number of contracts	71	87	66	143	58	65
	%	33.65	23.08	37.1%	45.0%	28.4%	10.3%
Entrepreneurs	Number of contracts	0	1	3	3	0	2
	%	0	0.27	1.7%	0.9%	0.0%	0.3%
Total		211	377	178	318	204	631

Of the total number of active contracts, 56.5% are contracts signed with legal entities, while about 43% of the contracts were concluded with individuals. Compared to the same period 2014, the number of active contracts in all categories reduced.

Table: Active contracts by lessees

Lessees		Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Legal entities	Number of contracts	2,813	2,951	2,816	2,570	2,092	2,476
	%	48.7%	51.3%	51.4%	50.4%	51.8%	56.5%
Individuals	Number of contracts	2,944	2,777	2,638	2,506	1,928	1,889
	%	51.0%	48.3%	48.2%	49.2%	47.7%	43.1%
Entrepreneurs	Number of contracts	21	23	22	20	19	18
	%	0.4%	0.4%	0.4%	0.4%	0.5%	0.4%
Total		5,778	5,751	5,476	5,096	4,039	4,383

The value and number of contracts by leasing type

As has so far been the practice, the financial leasing operations had significant share in the total volume and value of signed contracts.

Table: New business volumes by leasing type

Newly signed contracts		Q2 2014		Q2 2015		Growth Rate	
		Number	Value	Number	Value	Number	Value
Operating Lease	Number	66	741,861.5	178	1,782,731.2	170%	140%
	% Share	17.5%	13.7%	29.9%	25.6%		
Financial leasing	Number	311	4,676,122.8	417	5,168,090.5	34%	11%
	% Share	82.5%	86.3%	70.1%	74.4%		
Total:		377	5,417,984.3	595	6,950,821.7	58%	28%

During Q2 2015, the value of newly signed financial leasing contracts amounted to 5,168,090.5 euros and accounted for 74.4% of the total value of signed contracts. Compared to the same period 2014, a growth of 11% in the value of contracts signed has been recorded, while the new business volume increased by 34%.²

On the other hand, compared to Q2 2014, there was an evident increase in the number of contracts of operational leasing by 170%, while their value increased by 140%.

Lease object

Based on the structure of the total number of concluded contracts by leasing object, it is evident that passenger cars have constantly had the biggest share of 94.8% in the total amount of leasing investments. Compared to the previous quarter, there was an evident increase in the number of contracts concluded in connection with passenger cars, by 230%, while compared to same period 2014, there was a growth of about 80%. In this connection, there is a significantly

² - It is important to note that the above values of newly concluded contracts are expressed as net investment value, which represents the total value of the contract less the value of client's participation.

higher growth in the value of those contracts. The average value per contract for passenger car during Q2 amounted to € 10,666.3.

In Q2, leasing companies, in addition to a contract for passenger cars, made contracts for commercial vehicles (5.2% of all concluded contracts). The average contract value for commercial vehicles amounted to € 15,650.7.

Table: Structure of new business by lease object

The leasing object		Q2 2014		Q1 2015		Q2 2015	
		Number	Value	Number	Value	Number	Value
Passenger cars	Number	333	4,198,267.2	181	2,076,676.2	598	6,378,427.3
	% Share	88.3%	77.5%	88.7%	69.4%	94.8%	92.5%
Commercial vehicles	Number	32	737,158.8	19	776,268.2	33	516,472.7
	% Share	8.5%	13.6%	9.3%	26.0%	5.2%	7.5%
Construction machines and equipment	Number	11	426,865.7	4	138,361.9		
	% Share	2.9%	7.9%	2.0%	4.6%		
Ships	Number	1	55,692.6				
	% Share	0.3%	1.0%				
Real Estate	Number						
	% Share						
Other	Number						
	% Share						
Total		377	5,417,984.3	204	2,991,306.4	631	6,894,899.9

Analyzing active contracts as at June 30, 2015, it is evident that the category of passenger cars had the biggest share of 79.9% in terms of the number of contracts, while in terms of value the highest share had the category of real estate, with 49.9%.

Chart: Share in the total number of active contracts as at June 30, 2015

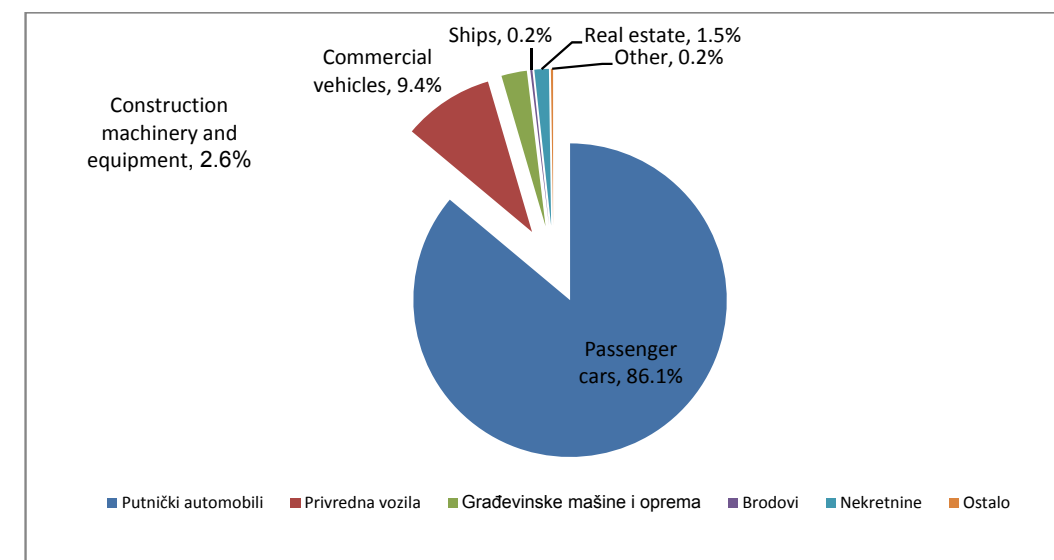
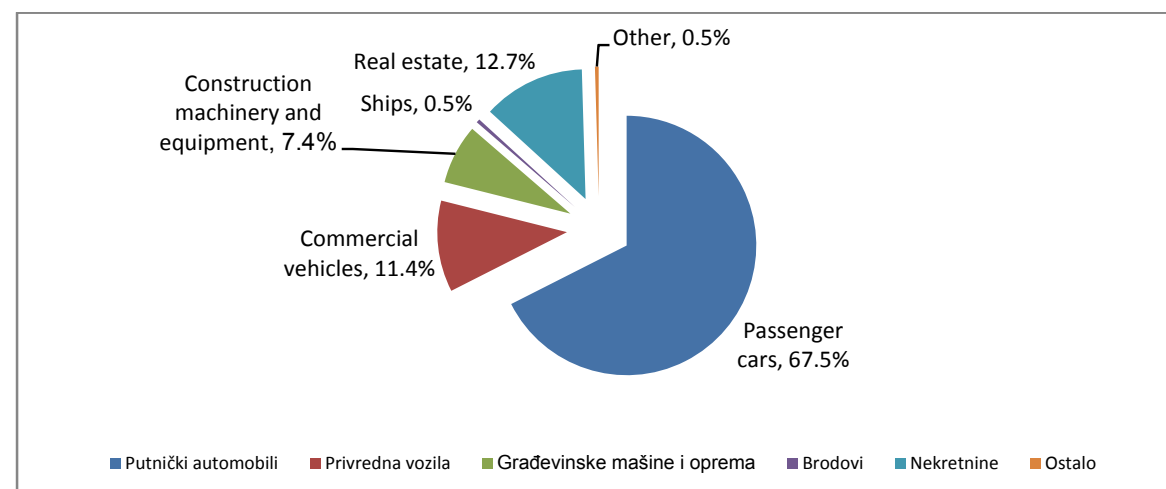


Chart: Participation in the total value of active contracts as at June 30, 2015



Sectoral structure

The sectoral structure of leases in Q2 2015 was dominated by contracts in the sector of other services (36.5%), public administration (26.1%) and transportation (18.4%).

In terms of active contracts, the dominant number of contracts constitute those within the trade sector (26.7%), other services (25%) and transportation (12.8%).

Table: Sectoral structure of newly signed and active contracts

Period	NEWLY SIGNED				ACTIVE			
	Number	%	Value	%	Number	%	Value	%
Sector								
Agriculture, forestry and fishing	1	0.2%	14,400.0	0.2%	31	1.3%	500,857.3	1.5%
Construction	3	0.5%	3,824.0	1.0%	146	5.9%	3,573,261.9	10.4%
Trade	40	7.1%	720,307.6	11.5%	661	26.7%	9,315,251.9	27.1%
Accommodation and food services	5	0.9%	51,065.0	0.8%	68	2.7%	1,024,774.8	3.0%
Other services	206	36.5%	1,986,774.0	31.8%	618	25.0%	7,166,738.2	20.9%
Transportation	104	18.4%	1,067,376.4	17.1%	316	12.8%	4,017,549.0	11.7%
Financial activities	3	0.5%	110,519.0	1.8%	19	0.8%	579,303.6	1.7%
Industry	6	1.1%	69,878.0	1.1%	276	11.1%	3,748,196.0	10.9%
Health, education and social protection	3	0.5%	48,994.0	0.8%	18	0.7%	335,610.4	1.0%
Public administration	147	26.1%	1,725,166.3	27.6%	176	7.1%	2,012,929.2	5.9%
Other sectors	46	8.2%	393,131.0	6.3%	147	5.9%	2,038,802.0	5.9%
Total	564	1	6,251,435.3	1	2,476	1	34,313,274.3	1

Balance Sheet

Total assets of four leasing companies as at 30 June 2015 amounted to € 57,826,611, down by about 50% compared to the same period last year.³ In the structure of total assets, fixed assets accounted for just over half of fixed assets (53%), while the rest (47%) are current assets.

STRUCTURE OF ASSETS as at 30 June 2015	
A. Subscribed capital	0%
B. Fixed assets	53%
Goodwill	0%
Intangible assets	0%
Property, plant, equipment and biological assets	35%
Long term financial investments	64%
Long-term receivables	72%
Long-term financial placements	28%
C. Deferred tax assets	0%
D. Non-current assets held for sale and discontinued operations	0%
E. Current assets	47%
Inventories	24%
Short-term receivables, investments and cash	76%
Receivables from buyers	24%
Short-term financial investments	66%
Cash and cash equivalents	7%
Value added tax and AVR	2%

In the structure of liabilities of four leasing companies as at 30 June 2015, the largest share took short-term provisions and short-term liabilities and long-term provisions and long-term liabilities, while equity recorded a negative share due to realized losses of certain leasing companies, which are significantly higher than their core capitals.

³ - Comparative data of the leasing market assets are not relevant, given that important balance sheet of total aggregate balance of the market is kept within the financial statements of leasing service provider with the largest market share, Hypo Aple Adria Bank.

Structure of liabilities as at June 30, 2015	
A. Capital	-91%
Core capital	-11%
Subscribed capital	0%
Reserve	0%
Positive revaluation reserves and unrealized losses on revaluation of available for sale financial assets	0%
Negative revaluation reserves and unrealized losses on revaluation of available for sale financial assets	0%
Retained earnings	5%
Loss	106%
Redeemed own shares	0%
B. Long-term provisions and long-term liabilities	83%
Long-term provisions	0%
Long-term liabilities	100%
Long-term loans	99%
Other long-term liabilities	1%
C. Deferred tax liabilities	0%
D. Short-term provisions and short-term liabilities	108%
Short-term liabilities	99%
Short-term liabilities from operations	7%
Short-term financial liabilities	0%
Liabilities from assets held for sale and discontinued operations	0%
Other short-term liabilities and AVR	1%
Current portion of long-term loans	88%
Portion of long-term liabilities maturing up to 1 year	4%
Liabilities arising from value added tax and other public revenues	0%
Income tax liabilities	0%
Short-term provisions	0%
Accrued liabilities	1%

Income statement

The summary income statement of 4 leasing companies shows a negative operating result at the end of Q2 2015, as 3 of the 4 companies achieved higher operating expenses than operating income.

On the other hand, financial result from other activities, for all 4 stakeholders in the leasing market, is positive and amounts to EUR 278,346 and EUR 357, respectively. Two leasing companies made positive financial results and results from other activities.

Total net result is positive (thanks to the positive result of two companies) and amounts to EUR 188,719.62 a decrease of 65% from net results achieved at the end of Q1 2015.

	TOTAL Q2 2015
I Operating income	4,458,454.29
II Operating expenses	4,548,438.30
A. OPERATING RESULT	(89,984.01)
I Financial income	974,257.37
II Financial expenses	695,910.96
B. FINANCIAL RESULT	278,346.41
I Other income	7,393,016.83
II other expenses	7,392,659.61
C. RESULT FROM OTHER ACTIVITIES	357.22
D. Income from continuing operations before taxes	188,719.62
E. The net result of discontinued operations	-
F. Result before taxes	188,719.62
G. Other items of results / associated with equity/	-
H. Income tax expense	-
NET RESULT	188,719.62

* * *

The leasing market Q2 2015 was characterized by a significant increase in the number of contracts concluded compared to the previous quarter, and the value thereof. Comparative data with the previous quarter of the same year point to the positive trends seen through the increase in the number of new contracts, which is an established trend in economic activity in Montenegro during Q2 and Q3.

mr Slađana Pavlović,
Independent Advisor II of the Directorate for Financial System and Business Environment Improvement



Vlatko Vukčević



Internal Audit quality Assurance and Improvement Program

The quality of work of internal audit unit is important for its place, role and position in the entity. The Internal Audit Unit is assessed on the basis of the quality of work and management of the internal audit activity.

In accordance with the requirements of the major international audit bodies: the IIA (Institute of Internal Auditors) and CIPFA (Certified Institute of Public Finance and Accountancy) quality assurance of internal audit is an important element in securing the best practices in managing the internal audit, which clearly states:

Standard 1300 - quality assurance and improvement program (International standards for professional practice)

"The Chief Audit Executive must develop and maintain a quality assurance and improvement program that covers all aspects of internal audit"

The Chief Audit Executive is responsible for establishing internal audit, the scope of activities of which includes all activities defined by Standards and Definition of Internal Audit. In order to ensure this, Standard 1300 requires that the head of internal audit establishes and maintains quality assurance and improvement program.

The Chief Audit Executive is responsible for the implementation of processes that should give adequate assurance that the internal audit:

- acts in accordance with the Charter of the internal audit, which must be complied with the Definition of Internal Auditing, Code of Ethics and Standards and
- operates in an efficient and effective manner.

These processes include appropriate supervision, periodic internal assessment and continuous monitoring of quality assurance, and periodic external assessment.

Quality assurance and improvement program must be sufficiently wide to include all aspects of business

management and internal audit, as set out in the Definition of Internal Audit, Code of Ethics, Standards and best practice. Quality assurance and improvement program should be carried out by the head of internal audit and must be under his direct supervision. The head of internal audit (if necessary, with a smaller number of employees in the unit) manages and monitors activities necessary for the successful quality assurance and improvement program.

Quality assurance and improvement program of internal audit is achieved through:

- Internal assessment
- The external assessment

Internal assessment

Internal assessment includes: ongoing monitoring of performance of internal audit activities and periodic monitoring through self-assessment or evaluation by others in the organization with sufficient knowledge of internal audit practices.

Methods used in continuous internal assessment are:

- Application of checklist and procedures (e.g. Internal Audit Manual, written procedures ...)
- Feedback from audit customers;
- Selective peer reviews by staff not involved in such audits;
- Analysis of other indicators of result, cycle audit time and accepted recommendations;
- Engagement supervision.

Manual for evaluating the quality of the IIA (Institute of Internal Auditors) should be used as the basis for periodic internal assessment.

Periodic internal assessment may:

- Include more detailed interviews and surveys of employees who participated in the audit, and are not the internal auditors;
- Be conducted by the members of internal audits (self-evaluation);

- Be conducted by certified internal auditors or other competent audit professionals who are in that moment deployed to another position in the organization;

- Include a combination of self-assessment and preparation of materials which are later controlled by certified internal auditors or other competent audit experts;

- Include standardizing of the practices of internal audit and determining the performance indicators and their comparison with the relevant best practices of the profession of internal auditing.

Periodic internal assessment which is carried out immediately prior to external assessment can facilitate and reduce the cost of external assessment. If the periodic internal assessment is performed by a qualified, independent external reviewer or review team, the assessment results should not contain any assurances about the outcome of subsequent external quality assessment. The report may contain proposals and recommendations for improving the practice of internal auditing. If the external assessment is carried out in the form of self-assessment with independent validation, the periodic internal assessment can serve as a self-assessment portion of this process.

Conclusions are drawn as to the quality of the performance and appropriate actions in order to achieve improvements and conformity to the Standards, if necessary.

The Chief Audit Executive defines the structure for reporting on the results of internal assessment in a way that maintains appropriate credibility and objectivity. In principle, the person responsible for the implementation of ongoing and periodic audits during their implementation shall report to the Chief Audit Executive and communicate results directly to him.

Chief Audit Executive at least once a year, submits a report to senior management on the results of internal assessments, necessary action plans and their successful implementation.

External assessment

External assessment cover the entire spectrum of audit and advisory services carried out by the internal audit activity and should not be limited to assessing its quality assurance and improvement programs. To achieve optimum benefits from the external assessment, the scope of activities should include determination of standards, identification and reporting of leading practices that co-

uld help internal audit to become more effective and/or efficient. This can be achieved either through a full external assessment by qualified, independent external reviewer or review team or through a comprehensive internal self-assessment with independent validation by a qualified, independent external reviewer or review team. In any case, the Chief Audit Officer shall ensure that the scope clearly reflects the expected results of external assessment.

There are two approaches to external assessment. The first approach is a complete external assessment conducted by qualified external reviewer or review team. This approach involves an external team of competent experts under the guidance of an experienced and professional project manager. Another approach involves the use of qualified, independent external reviewer or review team to conduct the independent review of internal self-assessment and internal audit reports. Independent external reviewers should be very experienced in conducting internal audit procedures.

The external assessment consists of a wide range of elements of internal audit involving the following:

- Compliance with the Definition of Internal Auditing, the Code of Ethics and the Standards, Charter, plans, policies, procedures and practices of internal audit and relevant legal and regulatory requirements;

- Expectations feedback from the senior and lower management in relation to the internal audit;

- Integration of internal audit in the management process of the organization, including the relationships among key groups involved in this process;

- Tools and techniques used by the internal audit;

- Mix of knowledge, experience and discipline within the staff, including staff focus on process improvement;

- A decision on whether the audit adds value and improves an organization's operations.

Preliminary results of the review, during and at the conclusion of the assessment process are discussed with the chief audit officer. The final results must be communicated to the Chief Audit Officer or other person designated by the organization, who has approved the control in the name of the organization, preferably by giving a copy to the relevant members of senior management.

Self-assessment with independent (external) proof is carried out by:

- a comprehensive and fully documented self-assessment process, which should introduce the process of external assessment at least with respect to the assessment of compliance with the Definition of Internal Auditing, Code of Ethics and Standards;

- independent evaluations on the spot by qualified independent reviewer;

- economical time and resources - for example, the primary focus would be on compliance with the Standards;

- limited attention of other areas - such as standards of audit, analysis and consultation in the implementation of best practices, and interviews with senior and lower management. However, information stemming from these parts of the assessment are one of the advantages of an external evaluation.

In the public sector, internal audit activities at all levels of government must be independent in terms of external assessment. The independence of the organization implies the absence of influence of the organization whose internal audit activity is subject to assessment. When selecting an external reviewer the possible existence of actual, potential and apparent conflicts of interest is considered. A conflict of interest could come from the past, present or potential relationship with the organization or its internal audit. It is necessary to consider the related commercial, private or mixed nature.

Use of the declaration of conformity: "Compliance with standards" or "In conformity with the Standards" requires external assessment of the evaluation at least once during the five-year period, along with ongoing monitoring and periodic internal assessments, and these activities need to have concluded that the internal audit activity is carried out in accordance with the Definition of Internal Auditing, the Code of Ethics and the Standards. It is not appropriate to use the declaration of conformity before the external assessment proves the compliance of internal audit activities with the above regulations.

The Chief Audit Officer shall inform senior management of examples of non-conformities that affect the overall scope or operation of internal audit, as well as the fact that an external assessment was not conducted in a five-year period.

Before the internal audit uses a declaration of conformity, all instances of noncompliance discovered during internal or external assessment, which reduce the ability

of the internal audit to perform its duties, must be adequately corrected.

Within IPA project "Strengthening the management of EU funds and general administrative procedures", the Directorate for Central Harmonization of the Ministry of Finance organized a one-day workshop on the theme: "The internal audit quality assurance program " intended for managers of internal audit units in the public sector. Also, as part of this project, a quality assurance program of internal audit has been drafted, whose update is in progress by the internal auditors and the Directorate for Central harmonization.

Vlatko Vukcevic
Senior Internal Auditor
Directorate for Central Harmonization



Nina Blečić



The risk register in municipalities

Creating long-term confidence of citizens, good governance and the quality of the work of municipalities are essential. This takes reforms. One of the reforms is to establish a risk management process in the municipalities. Risk management is a relatively new discipline, and we can freely say that it is still in the initial phase of study and application.

In Montenegro, examples of management on the basis of risk assessment have proven successful in the banking sector and the insurance sector. However, in the municipalities, management is mostly down to complete reliance of management on professional experience, trend monitoring or management by feeling.

However, certain decisions, especially those that have strategic importance and commitment cannot be made on the basis of feelings, or only on the basis of some experience. This especially applies to municipalities that have large debts. Decision-making should be based on detailed analysis and assessment of all possible risks in order to achieve the intended objectives and effectively realize them in all phases and its final volume.

Management of municipalities is responsible for analysis, risk assessment and management, as well as for the establishment of an effective system of internal control, so it constitutes a permanent commitment.

Definition of risk

The risks represent the uncertainty or the possibility that a certain activity can occur and adversely affect the ability of municipalities to realize planned activities and tasks as well as to execute the budget under the adopted framework and the established structure. At the same time, the risks are the chances and opportunities that can be achieved, but may be also missed or ignored.

In today's business conditions, the objectives of municipalities are complex, with different characteristics, but significant for the satisfaction of general services for citizens. The environment is constantly changing, so the uncertainty and risk further increase.

The risk register

Central Harmonization Unit of the Ministry of Finance has organized, during the period December 2014-Jul 2015,

within the framework of the project "Strengthening the capacity of EU funds management and general administrative procedures", a series of trainings (divided into several phases) on the theme: "Developing risk registers in municipalities". Training sessions were held in 5 pilot municipalities: Podgorica, Niksic, Bijelo Polje, Herceg Novi and Pljevlja. In addition, the training also included employees of the municipalities of Pluzine, Berane, Mojkovac and public enterprises established by the municipality or with stake of he.

The aim of the training was to help employees in municipalities to prepare risk register, through practical work.

For starters, the municipalities have appointed persons responsible for coordinating the establishment and implementation of the risk management process, with the responsibility to:

- In collaboration with the CHU introduce managers at all levels about the need to establish a risk management process in the municipality;
- Encourage a culture of risk management and help managers in effective risk management;
- In cooperation with the heads of organizational units initiate the activities on the introduction of the risk management process and determine deadlines for certain activities;
- Prepare a report on risk management in the municipality.

In the first round of training municipal employees were introduced to the concept of risk, how to identify and describe

the risks, as well as the importance of establishing a risk management process. The most common problems/errors with which they have encountered in this phase were related to:

COMMON ERRORS DETECTED IN PREPARATION OF SUBREGISTRIES FOR IDENTIFICATION AND DESCRIPTION OF RISKS	
The aim	Not specified target of organizational unit or is poorly defined (not appropriate to the nature of work of org. unit)
The processes of organizational units	Poor description of the process - names of organizational units (departments) are cited as processes (functions)
Risks	The risks include problems of the municipality (which gives a list of all the problems) and not potential events that may threaten the achievement of the targets. Likewise, indicators, or the consequences, are stated as the risks
Causes	Unclear or illogical reasons for the occurrence of these risks
Consequences	Description does not indicate the actual weight of damage/consequences of the resulting risk at achieving the objective of the organizational unit (catastrophic, major consequences)

After this phase, employees of municipalities receive assistance in risk assessment and in defining the measures needed to reduce the risk to a level acceptable to management.

Having reviewed the risk registers prepared by municipalities, the most important risks were identified:

- Inability to make quality budget due to the high level of indebtedness of local governments, which results in incomplete provision of services to citizens;
- Insufficient collection of established fees due to the impossibility of implementing mechanisms of collection, which has resulted in adoption of the budget in an amount lower than optimal.

The municipal leadership is to determine which of the identified risks may or may not be controlled.

There are several possibilities:

- The establishment of adequate and effective internal control system, which would eliminate or reduce the negative effects of identified risks;
- The transfer of risk through insurance;
- Adoption of a reserve plan that will be applied in terms of increase in risk
- Analysis and monitoring of the planned targets, in order to timely make a decision on termination of activities for which it is established to lead to uncertainty or risk.

Within the project, a number of municipal employees have been trained for coaches in the establishment of a risk register. In this way the capacities were reinforced, with the aim to transfer acquired knowledge to other employees. Consequently, the conditions were created for risk management in the municipalities to become an integral part of the organizational climate, culture and decision making process.