



**MONTENEGRO  
MINISTRY OF FINANCE**

**REPORT ON IMPLEMENTATION OF THE PUBLIC  
FINANCE MANAGEMENT REFORM PROGRAMME  
2016-2020, FOR 2016**

March 2017

## I INTRODUCTION

The Government of Montenegro adopted the *Public Finance Management Reform Programme 2016-2020* (hereinafter: “Programme”) on 3 December 2015. The Programme defines the key reform plans in this area, aimed at increasing responsibility and ensuring reliable financial management, by improving economy, effectiveness and efficiency in public resources management. Implementation of the Programme will ensure better coordination and interdepartmental cooperation in planning, implementing and monitoring the policies related to macro- and fiscal stability, allocation and use of public resources, as well as improved transparency of the public finance management system. Public finance management reform is necessary in order to ensure fiscal sustainability and proper management of public finance in accordance with the provisions of the European Union (EU) legislation and aims to achieve results that will allow significant improvement in the functioning of the budget system, managerial accountability system, budget execution, internal and external audit. Implementation of the Programme is a crucial basis that will ensure further support from the Instrument for Pre-accession Assistance (IPA) and one of the preconditions for using the IPA sectoral budgetary support. The Programme is, at the same time, also significant in terms of coordination of efforts made in view of meeting the opening or closing benchmarks for accession negotiations in a number of negotiation chapters, in particular in the following chapters: 5 – Public Procurement; 16 – Taxation; 17 – Economic and Monetary Policy and 32 – Financial Control.

The Ministry of Finance is tasked with monitoring the implementation of the Programme, and the Programme envisages the obligation of the Ministry to report to the Government as of 2017 on the Programme implementation and suggest any amendments to the Programme required. The Government must inform the European Commission twice per year on the progress achieved in the Programme implementation.

The report was prepared based on the Action Plan for implementation of the Programme 2016-2020, adopted by the Coordination Group in 2016, which elaborates in detail the activities and objectives defined in the programme. The report includes a narrative and tabular overview of the implementation of activities from the Action Plan planned to be started and/or completed in 2016. The report (narrative part) is not limited to information on the activities due in 2016, but also contains information on other activities implemented in relevant areas and of relevance for the attainment of the objectives defined in the Programme. The concluding remarks of the report include the analysis of the identified risks in the Programme implementation and suggestions and guidelines for their elimination and improvement of efficiency in coordination and implementation. It was composed based on the information gathered by the members of the Coordination Group and the representatives of the institutions in charge of the Programme implementation.

## II IMPLEMENTATION OF THE PUBLIC FINANCE MANAGEMENT REFORM PROGRAMME IN 2016

After the Public Finance Management Reform Programme 2016-2020 was adopted by the Government of Montenegro at its session held on 3 December 2015, the Ministry of Finance initiated the activities to prepare and adopt a detailed action plan for its implementation and to set up mechanisms for efficient monitoring of the Programme implementation. In line with the obligations envisaged in the Programme, the *Coordination Working Group for the continuous monitoring of the implementation of the Public Finance Management Reform Programme* (hereinafter: “Coordination Group”) was set up in February 2016, composed of representatives of institutions in charge of the Programme implementation: Ministry of Finance, State Audit Institution, Public Procurement Administration, Tax Administration. Representative of the Committee for Economy, Finance and Budget of the Parliament of Montenegro is also a member of the Coordination Group. The Coordination Group is chaired by the representative of the Ministry of Finance, and the group is tasked with continuous monitoring of the Programme implementation, holding regular meetings to discuss the progress achieved in the implementation, preparation of implementation reports and coordination of activities within the technical assistance projects in this area.

With the assistance of a consultant, hired within the technical assistance project financed from the European integration instrument<sup>1</sup>, the Coordination Group prepared, and then adopted, a comprehensive five-year Action Plan for implementation of the Public Finance Management Reform Programme 2016-2020 (hereinafter: “Action Plan”)<sup>2</sup>, elaborating in detail the activities and objectives defined in the Programme. In addition to the areas covered by the Programme, the Action Plan defines the activities in three additional areas, which were not originally part of the Programme: State aid, customs and EU funds audit (Audit Authority activities). Adding these activities allows coordination and monitoring of development of the entire public finance management system, i.e. of all areas that are related to or part of the system. The Action Plan elaborates in detail the results and indicators for the Programme activities, and reviews the data on the financial resources<sup>3</sup> required for implementation of individual activities.

Precise defining of the amount of resources would allow the decision to be taken on the division of funds envisaged for implementation of the IPA 2014 project “Support for public

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<sup>1</sup>consultant Bojan Pogačar, consulting company “DFC” S.A.U.;

<sup>2</sup>Annex to this Report;

<sup>3</sup>Implementation of a part of the planned activities and strengthening of administrative capacities will be provided within:

- IPA 2014 project “Support for public finance management policies”,
- IPA 2014 project “Implementation of the electronic public procurement system”,
- IPA 2014 project “Support for the Tax Administration”,
- IPA 2014 multi-beneficiary project “Strengthening economic management and public finance management”
- IPA 2014 project “Support for the Customs Administration”

finance management policies”<sup>4</sup> into five components<sup>5</sup> related to various areas of public finance management, in order to ensure efficient project implementation. The above decision on division into various components allowed the initiation of preparatory activities to announce tenders for implementation of the above projects. The project of “Support for public finance management policies” is one of the key projects which will cover implementation of a large number of activities defined in the Programme, related to the following areas: programme budget, development of internal financial control system, improvement of IT system for budget planning, implementation of centralized payroll calculation, improvement and strengthening of institutional and legal framework in the area of State aid and public procurement, development and strengthening of capacities of the State Audit Institution and the Auditing Body.

In addition to the amount of financial resources, in the adoption of the Action Plan, the review also included the deadlines for implementation of a certain number of activities. Namely, having in mind that the Financing Agreement between the Government of Montenegro and the European Commission on the Annual Country Action Programme for Montenegro for the year 2014 under IPA, the signing of which is a precondition to announce the tender, was signed in December 2015, and that the deadlines indicated in the Programme are based on the expectations that the tender procedures will be implemented in 2015/2016, this caused delaying of the start of implementation of a significant number of activities. Furthermore, it was possible to take the decision on the final budget allocation envisaged for the implementation of the IPA 2014 project of “Support for public finance management policies” only after new assessment was prepared, with the support of an externally hired consultant, during the preparation of the Action Plan, which caused additional delays in the initiation of project tenders and the start of their implementation. In the second half of 2016, within the technical assistance project implemented from the European Integration Instrument, a team of consultants were engaged to provide support to competent institutions in the preparation of tender documents for all five components of the above project. Deviations from the defined deadlines and the need for additional harmonization of documents prepared by the consultants caused additional postponement of the tender announcements.

Below is information on the implementation of the activities from the Programme, i.e. the Action Plan, by areas, which were planned to be initiated or completed in 2016, as well as

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<sup>4</sup>Decision of the Ministry of Finance no. 01-80971/1 of 18 May 2016

<sup>5</sup>Project “Improvement of public finance management policies”, with the total value of EUR 4 million, divided into five components:

- 1) Improvement of budget system and development of the PIFC system (value: EUR 1.55 mil.)
- 2) Improvement of IT system of the Budget Directorate (value: EUR 0.3 mil.)
- 3) Implementation of centralized payroll calculation (value: EUR 0.6 mil.)
- 4) Improvement and strengthening of institutional and legal framework in the area of State aid and public procurement (value: EUR 0.875 mil.)
- 5) Development and strengthening of the State Audit Institution and the Auditing Body (value: EUR 0.67 mil.)

information on other activities implemented in 2016 that contribute to the realization of the objectives defined in the Programme.

### **Area A: Sustainable fiscal framework, planning and budgeting of public expenditure**

Activities in this area, the implementation of which is planned under the Programme and the Action Plan, should contribute to realization of the following objectives:

- 1) medium-term budgetary framework should reflect the Government policies and strategic goals and include fixed spending limits for all first-level spending units;
- 2) create an efficient system for measuring budgetary program effects in order to increase efficiency and transparency of public expenditures;
- 3) improve capital budget planning and reporting on capital project implementation.

At the end of 2015, in view of improving the planning process and multiannual commitments, the budget circular was enhanced so that it includes parts related solely to multiannual commitments. Such upgrading of the existing budget circular included data on the contracted value, implementation timeframe and sources of financing. In parallel with the budget circular, spending units received the proposal for the new revised program structure, which is the first step in revising the existing program structure and preparation for implementation of the activities in this area, covered under the Action Plan for 2017<sup>6</sup>. As regards the strengthening of medium-term budgetary framework, and implementation of program budget, the Budget Directorate of the Ministry of Finance finalized, in 2016, the Draft decision on the method of preparation and contents of the program budget. The procedure of harmonization of the document with the relevant institutions is underway, and the adoption of the decision is planned for Quarter II 2017<sup>7</sup>. In addition to the above stated, a review was carried out, in cooperation with budgetary units, of the existing program structure, in order to define requirements concerning amendments or elimination of particular programs. Intensifying activities to introduce all elements of the program budget for all budget users is, as stated, envisaged under the IPA budget, and the tender for it should be announced in Quarter I 2017.

The most significant activity implemented in 2016, in this area of the Programme, is the adoption of the Budget Deficit and Public Debt Recovery Plan, which was prepared and adopted in parallel with the adoption of the 2017 Budget Law. The Budget Deficit and Public Debt Recovery Plan 2017-2021 focuses on preserving the trust of financial markets in public finances of Montenegro along with defining of the package of reform measures aimed at implementing a more significant medium-term fiscal consolidation. This plan strives to ensure reducing of budget deficit below 3% and slowing the growth of public debt in relation to GDP, as the public debt in the above medium term cannot be restored to a level below

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<sup>6</sup>Activities A2.2, A2.4, A2.5 and A3.1 in the Action Plan

<sup>7</sup>Action Plan envisages the possibility of adopting a new decision in the following years as well, if required, which will depend on the dynamics and requirements imposed in the process of establishing the programme budget;

60%, due to the financing of priority sections of the highway. The focus of the Recovery Plan is to achieve balance of the current budget, which will prevent borrowing for current spending, through implementation of a package of measures aimed at achieving growth of budget revenues and controlling of expenses, the effect of which will amount to 3.2% of GDP in 2017. Accordingly, the projected budget deficit will move downwards, from 6% of GDP in 2017 it will fall to 3.9% of GDP in 2019, and in 2020 it will move to the zone of budget surplus in the amount of 0.9 % of GDP. At the same time, public debt will grow until 2019, when it will reach the highest level of about 79.5% of GDP, after which it will take a downward trend and go down to 74% of GDP in 2021. Reform measures in the recovery plan will ensure sustainable growth in the future, and they will not cause major economic problems, i.e. we will not implement measures which will ensure economic stability in the short term and jeopardize the long-term development of the economic system.

In line with the provisions of the Law on Budget and Fiscal Responsibility (Official Gazette of Montenegro 20/14 and 56/14) and the 2017 Annual Programme of the Government, it is envisaged that the Government will adopt, upon proposal of the Ministry of Finance, by the end of Quarter II, the proposal for the fiscal strategy for the period 2017-2020, which will, together with the opinion of the Central Bank, be submitted to the Parliament of Montenegro for adoption. The proposal for the fiscal strategy will include the macroeconomic and fiscal framework for the period 2017-2020, including the data on the movements of the public debt, and on the structural reforms to be implemented in the following four-year period. Draft Fiscal Strategy is being prepared, and having in mind that the relevance of the document and the needs for internal harmonization and incorporation of the suggestions from relevant international institutions (IMF, World Bank) require additional time to finalize the document, the deadline specified in the Action Plan was extended and, instead of Quarter I 2017, the Government Annual Programme defined that the proposal is to be adopted in Quarter II 2017.

As regards the activities in the Action Plan related to the area of strategic planning, the Government of Montenegro passed the Decree Amending the Decree on Organization and Work of Public Administration (Official Gazette of Montenegro 03/17), defining that coordination and monitoring of the alignment of strategies establishing public policies will be the task of the newly formed Ministry of European Affairs. In the following period, it is planned to adopt amendments to the Rules of Procedure of the Government, which will ensure full establishment of the institutional and regulatory framework for strategic planning at the level of public administration. Having in mind the above organizational changes, it is expected that, after the structure of the organizational unit in the Ministry of European Affairs in charge of the area of strategic planning is established, the activities in view of development of the methodology for the preparation of strategic documents will be intensified in the first half of 2017. In cooperation with SIGMA, the activity from the Action Plan which includes development of the analysis of functionality of the existing strategic planning system has been implemented in the part related to comparative analysis of the systems that exist in the neighbouring countries.

Majority of the activities in the Action Plan related to this area will be implemented under the IPA 2014 project of “Support to public finance management policies”. Preparation of tender documents for the relevant components of the above project is in its final phase and the tender announcement is expected in the following months.

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| <b>Area B: Budget execution</b> |
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The objectives defined in the Programme in the area of budget execution are as follows:

- 1) strengthening of administrative capacity of the Tax Administration in order to improve revenue collection, thus contributing to budget fiscal revenues
- 2) harmonization of public procurement system with the EU public procurement legislation in order to establish an efficient, transparent and competitive public procurement system in Montenegro
- 3) better quality in monitoring and reporting on public debt, defining and establishing clear procedure related to public debt management and indebtedness analysis, cash management and realization of debt payment transactions.

In addition to the activities of the Tax Administration, the activities in the area of public procurement and public debt management, the Action Plan also covered three new areas: customs, State aid and salaries in the public sector.

As regards the sub-area related to revenue collection, i.e. the **Tax Administration** activity, the activity from the Action Plan that includes strengthening of administrative and operational capacities of the Tax Administration, in line with the EU standards and requirements defined under Chapter 16 – Taxation, became due for implementation in 2016. The start of this activity was planned for quarter IV 2016, and having in mind that it will be implemented through Twinning IPA 2014 project of “Support for the Tax Administration”, and given the long procedure of twinning partner selection and preparation of the schedule and contract, the start of implementation was moved to quarter II 2017. Spain was selected as the twinning partner, and the project implementation will take 18 months.

Measures for strengthening of the IT system of the Tax Administration were partially implemented in 2016, through activation of risk analysis module and implementation of module for monitoring the work of tax inspectors. Based on information provided through the risk analysis module, risky tax payers are identified and analyzed thus allowing for preventive action, in order to prevent the occurrence of tax debt. The module for monitoring the work of inspectors includes electronic entering of orders, indebtedness and reports, which allows easier monitoring of the work of inspectors and taking actions under cases assigned to them. Further measures of strengthening of the IT system of the Tax Administration will be implemented through the above Twinning project.

The activities of the **Customs Administration**, defined under the Action Plan, refer to the implementation of new IT solutions that will allow linking with the European systems and

fulfilment of the obligations in the negotiation process. This refers to the implementation of: New Computerized Transit System (NCTS), Excise Movement Control System (EMCS), Integrated Tariff Management System (ITMS), Export Control System (ECS), Import Control System (ICS), Risk Management System (RMS), Guarantee Management System (GMS), Economic Operators' Registration and Identification (EORI). The start of implementation of the majority of the activities in this area is planned for 2017, 2018 and 2019.

The Customs Administration has prepared the project documents to initiate tender procedure for the implementation of the IPA 2014 project of "Support for the Customs Administration" to join the Common Transit Convention and Convention on Facilitation of Trade in Goods. It is expected that the tender procedure for the above project will be initiated in the first half of 2017. Technical specifications were prepared in 2016 for the initiation of public procurement procedures for the implementation of the activities of the Customs Administration under the project of "Support for implementation of the Integrated Border Management Strategy in Montenegro"<sup>8</sup>, from the direct budget support of the IPA 2015 funds. It is planned to procure equipment for the purpose of efficient implementation of the customs control and customs investigations, equipment for mobile teams to combat smuggling and equipment for customs laboratory.

Significant activities were implemented in 2016 with the aim to strengthen the capacity of the Customs Administration. Under the World Bank – IFC project "The Western Balkans Trade Logistics", the Administration prepared two documents in 2016: "Strategic Framework for Risk Management" and "Risks Register". From its own funds, the Administration implemented the project of "Electronic Risk Management Register", which established a new electronic system that allows all activities in the risk management system of the Customs Administration to be implemented through an electronic application: collection of information, records, analysis, forwarding, databases, testing, development of risk profiles, evaluation of profile performance, updating and reporting. Within the implementation of the project of "Support for capacity building and accreditation of the customs laboratory of Montenegro", financed from the IPA 2013 reserve funds, which started in April 2016, trainings were organized for the customs laboratory officers (ISO 9001 and ISO 17025), proposals for the procedures were submitted and consultations carried out in order to adjust them to the working conditions in the customs laboratory.

The following was implemented through the EC TAIEX instrument: expert mission on the topic of review of the excise system of the Customs Administration in order to consider possible upgrades or development of a new national excise system, with recommendations and support in the preparation of the Customs Administration for the EMCS development in April 2016; expert mission for alignment with the *acquis* in the area of movement of excise products and practices in the arrangement of the control system and support in the preparation of ToRs, in September 2016; expert mission on risk analysis in common transit procedure in June 2016 and mission on the topic of risk management system in November 2016; mission

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<sup>8</sup>The activity is defined in the Action Plan;

on the topic of description of the risk management system functionalities in NCTS, in December 2016.

As regards trainings, a study visit to the Customs Administration of Croatia was implemented in September 2016 through TAIEX on the topic of traditional own resources, and within the Programme CUSTOMS 2020 study visits of the Customs Administration officers in 2016 were organized to: the Customs Administration of Austria on the topic of origin of goods, Customs Administration of Serbia on the topic of customs audit, and two visits to the Customs Administration of Croatia on the topic of prohibitions and restrictions prescribed in the decision on the control list for import and export of goods and on the topic of customs laboratory in Zagreb. In cooperation with the World Customs Organisation, workshops were organized for customs officers on the topic of preparation of study to measure the retention times of goods and the use of TRS software, in May 2016, workshop on the control of money transfer across border, in September 2016, and a workshop on modernization of customs laboratory in October 2016.

The Business Strategy of the Customs Administration was adopted in 2016, defining the vision and mission of the Administration, as well as the strategic goals for the period 2016-2018. The Strategy for Human Resources Management was adopted in April 2016, establishing the main guidelines for human resources management for the period 2016-2018, in view of the needs and demands of the customs service to raise the level and quality of work regarding this issue in line with the modern practices and the process of joining the EU. The Draft Law Amending the Customs Law was prepared, which will continue further alignment with the Common Transit Convention.

In the area of **public procurement**, activities related to harmonization of the existing national legislation with the EU *acquis* were partially implemented in 2016. In July 2016, the Ministry of Finance formed a working team to prepare the new law on public procurement which will ensure alignment with the EU directives. The draft was prepared and delivered to relevant institutions for further alignment. The Government Annual Programme for 2017 includes plans to adopt the proposal for the new law in quarter II 2017. In parallel with the preparation of the new law, the work group is also preparing the table of concordance in order to assess the level of harmonization of the amended legislation with the relevant EU directives.

As regards the implementation of public awareness raising campaign, the directions and the method for its implementation were established: *help desk* centre for advisory and consulting services; preparation of communication guidelines for economic operators for small and medium-sized enterprises, the development of which is underway; cooperation agreements with other public institutions and continued cooperation with the authorities signatories to the previous agreements/memoranda; through access to information on public procurement on the Public Procurement Portal and through publishing of all related documents on public procurement; through regular reporting of the public via the Integrity Plan implementation portal; through Public Procurement Forum etc. The activities aimed at raising awareness on

the significance of setting up an efficient public procurement system will be intensified in 2017.

In line with the Programme and the method of professional training and development in the area of public procurement for 2016, the Public Procurement Administration organized and implemented twelve trainings in various Montenegrin municipalities. A total of 258 officers were trained in 2016. It is expected that the activities related to training of officers will be intensified with the start of implementation of IPA 2014 Component IV project of “Support for public finance management policies” – “Establishing institutional and legal framework in the area of State aid and public procurement” in 2017. Within the mentioned project, additional materials will also be prepared for trainings of special target groups included in the public procurement system.

The tender for implementation of the IPA 2014 project of “Implementation of the e-procurement system” is expected to be announced in the first half of 2017. Finalization of the tender documents is underway, and the aim of introducing the *e-procurement* system is to increase transparency and efficiency of public procurement, improve monitoring, contribute to fight against corruption, and to establish a single public procurement system through unification and standardization of procedures.

In the area of **State aid**, the activity that became due in 2016 is the activity in the Action Plan related to monitoring of track record through analysis of national cases of State aid in the European Community common law. The Department for State Aid in the Ministry of Finance carries out the monitoring of track record in the context of passing decisions on compliance with the State aid rules, and increased number of reported cases of State aid by all potential State aid grantors. Transparency of this process is reflected in timely updating of the website of the Commission for the Control of State Aid, which is the task of the Department for State Aid. A total of 19 cases of State aid were implemented in 2016. It is expected that this number will grow with the start of implementation of the planned IPA project<sup>9</sup>, and with even larger commitment to strengthening the awareness in the institutions of the need to report any granting of State aid in a timely manner and of the significance of its alignment with the Law and the rules. Intensifying of other activities in the area of State aid in line with the Action Plan is planned for 2017, after the start of the IPA project implementation, and it will refer to strengthening of the institutional framework and the legal system in the area of State aid, strengthening of administrative capacities and establishing of an adequate IT solution for State aid grantors. These activities should contribute to fulfilment of preconditions for progress in negotiations under Chapter 8 – Competition Policy.

Certain progress has been made in the implementation of the reform of the Directorate for **public debt** management, analysis of indebtedness, cash management and foreign relations. A new software solution for public debt management was implemented, i.e. module of the

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<sup>9</sup> IPA 2014 Component IV project of “Support for public finance management policies” – “Establishing institutional and legal framework in the area of State aid and public procurement”

SAP accounting system used by the State Treasury, which allowed better monitoring of changes and trends in the public debt level, more precise reporting and timely settlement of credit payment liabilities.

With the support from the International Monetary Fund, trainings were organized for the officers of the Directorate for Public Debt Management on the topic of analysis of indebtedness, preparation of public debt management strategy and creation of various models to create projections of movements of the public debt level. Additional trainings are planned for 2017. At the same time, in cooperation with a consultant, analysis of weaknesses of the existing Public Debt Management Strategy was made, and the result of the analysis was the basis for defining relevant measures and creation of projections required to prepare the proposal for the budget deficit and public debt recovery measures. It is expected that the new strategy for debt management, which will cover the period 2018-2020, will be finalized and adopted in the first half of 2018.

The dynamics of the implementation of changes in the structure of the Directorate for Public Debt Management will depend on the dynamics of the adoption of a new rulebook on internal organization and systematization of the Ministry of Finance. The proposal for the new structure was prepared, and it is planned to form two directorates: directorate for debt management, analysis of indebtedness and foreign relations (*Front Office*) and directorate for cash management, debt servicing, records of government debt and debt of local government (*Back Office*). The directorate for debt management, analysis of indebtedness and foreign relations will be tasked with providing the lacking financial resources, cooperation with domestic and foreign creditors, negotiations on credit arrangements, debt restructuring, issuance of government securities, conclusion of contracts with creditors. Also, *Front Office* will deal with issuing of government guarantees and on-lending. The directorate for cash management, debt servicing, records of government debt and debt of local government will be in charge of cash management, validation of transactions and debt data, settlement of debit transactions, realization of payments for debt servicing, preparation of accounting information, pairing of bank accounts and updating the database on debt and the preparation of statistical data. It is expected that the changes in the structure of the organizational unit that covers the area of public debt management will ensure clear division of duties, establishing of clear procedures and better organization of work, which will in turn reduce operational risk and increase efficiency of the unit.

In the area of **payroll calculation in the public sector**, the Law on Salaries of Employees in the Public Sector was adopted in March 2016 (Official Gazette of Montenegro 16/16). The Law was adopted in order to align the level of salaries in all segments of the public sector, in accordance with the same principles, for officials, administration employees at the national and local level, enterprises majority owned by the state and by local governments and other institutions and bodies exercising public authority. A large portion of bylaws were adopted, and the one remaining act is planned to be adopted in quarter I 2017. Preparation of tender documents for the implementation of IPA project (component III of the project of “Support to public finance management policies”) is in its final phase, and the project will provide for

implementation of a new software solution for centralized payroll calculation. The new software should allow centralized payroll calculation in all spending units-budget users and establishment of control mechanisms of payroll calculation in the entire public sector and local governments, and the plan is to connect it with the SAP accounting system of the State Treasury and the budgeting software.

### **Area C: Development of public internal financial control (PIFC)**

The aim of the planned reform in the area of **development of internal financial control system** is to manage public finance in an efficient, economical, effective and transparent manner at the level of individual spending units.

The activity that became due in this area in 2016 is the activity in the Action Plan related to strengthening of capacity of the Central Harmonization Unit (hereinafter: "CHU"), Ministry of Finance, for the quality assessment of financial management and control and internal audit. The start of implementation of this activity was planned for quarter IV 2016, and completion for quarter IV 2017. The implementation of the activity started as planned and, with the support from SIGMA experts, assessment of the financial management and control process was carried out in two institutions. Based on the guidelines provided, the CHU carried out quality assessment in three more institutions. Also, in cooperation with SIGMA, the so called FOCUS group was organized, i.e. consultation with the representatives of public institutions and local governments in order to gather information and data necessary for updating of the manual and guidelines for financial management and control.

Strengthening the capacity of the staff involved in the implementation of the system of internal financial control at the level of individual spending units was the focus of the Central Harmonization Unit in 2016. The Commission for Economic Policy and Financial System adopted a training program for internal financial control system in January 2016, which is implemented by the Ministry of Finance in cooperation with the Human Resources Management Authority. In the field of financial management and control, 14 training sessions were organized for representatives of budget users at central and local level. The aim of the training was the introduction of budget users in the process of risk management and presentation of guidelines for the establishment and implementation of risk management in the public sector, as well as assistance in the preparation of the Financial Management and Control Development Plan, as well as the development of internal policies and procedures.

In the area of internal audit, CHU, in cooperation with the Human Resources Management Authority, started the implementation of the program of Continuing Professional Education for certified internal auditors in the public sector. A total of 20 workshops were organized in 2016 for internal auditors at both central and local level, on the topics of internal audit methodology, sampling, internal audit planning, audit report writing and audit of programmes/projects financed by the EU. In 2016, in cooperation with the Centre of Excellence in Finance from Slovenia (CEF) and the British Chartered Institute of Public

Finance and Accountancy (CIPFA), the third round of the program of training and certification was continued for 33 internal auditors in the public sector in Montenegro. The aim of the program is the training of employees in the public sector in accordance with internationally recognized standards and best practices, as well as acquiring internationally recognized certificates for performing internal audit in the public sector. The practical training was organized for internal auditors in the Ministry of Finance and the Ministry of Interior to carry out audit of 3Es with the assistance of SIGMA. In addition, the analysis of the existing methodology of internal audit was done with the assistance of SIGMA representatives.

#### **Area D: Financial reporting and accounting**

The objectives of the activities envisaged in this Programme area are as follows:

- 1) improving the quality of public finance management and reporting by introducing the basic requirements for the key elements of accrual accounting
- 2) ensuring alignment of data with the European System of National Accounts (ESA 2010)

Activities that are defined in the Action Plan within the sub-area D1 – **transition from cash to accrual accounting and financial reporting** stem from the Strategy of the Public Sector Transition to Accrual Accounting, adopted by the Government in March 2015. Implementation of these activities should provide complete and timely information in the process of creating fiscal policy by quantifying the impact of changes in assets, liabilities, cash, or use of the balance sheet in fiscal management. It will also create a good accounting and information base for external reporting in accordance with the requirements of the European Commission and the International Monetary Fund.

In 2016, the Ministry of Finance, in cooperation with the Centre of Excellence in Finance from Slovenia (CEF) and the British Chartered Institute of Public Finance and Accountancy (CIPFA), started the implementation of the project of “Public Accountants Certification Training” (PACT). The program is intended for public sector employees who have a university degree and relevant practical experience in areas such as the preparation and execution of the budget, accounting, preparation of information on financial management and financial supervision and control. The training aims at strengthening the professional qualifications for accountants in the public sector and contributes to improved public finance management, establishment of good practice, fight against corruption and inefficient management of public resources. The training is adjusted to the needs of professional development of the Montenegrin administration in public finances and to the achievement of the objectives of the Medium-Term Strategy for the Transition to Accrual Accounting. The first training cycle for 40 participants was organized in 2016. It is planned to start the second cycle in March/April 2017, also for 40 participants.

The implementation of activities aimed at changing the chart of accounts, i.e. adapting it to the new accounting requirements, has been initiated. The Action Plan envisages the implementation of the measure by 2019.

The Ministry of Finance implemented a pilot project in 2016 for the registration of commitments (Commitment Module), which aims to record capital projects and contracts in the SAP accounting system by the Directorate for Transport and the Directorate for Public Works. This means that the capital budget spending may be monitored on the basis of projects through the SAP system, which will allow the Ministry of Finance (Treasury) to have information about the payment obligations falling due on the basis of those contracts, as well as the total spending of the capital budget. Go-live phase of the project was implemented on 1 April 2016, and post-production support lasted until the end of June 2016. The module is in use and is used by the competent institutions.

The activity relating to the implementation of IT modules for asset management is underway. It is a module which will establish a single register of public property, which will provide insight into the scope and structure of the assets owned by the state, control of state assets, the establishment of a mechanism of quality and faster decision-making on asset management, and property management performance monitoring. The software is programmed and partial migration of data has been carried out. The main operating environment is the ARS web application (Asset Registry System) through which fixed assets are recorded in the fixed assets module of the SAP system. The management of data and authorizations granted to users is enabled in a separate application. Users have different levels of authorisation and access to data according to the role assigned to them, and for access to unified records they must possess a certificate that is issued and granted by the Ministry of Finance. Training for users on the use of the new modules for asset management is carried out in three phases: 1) training of direct budget users; 2) training of indirect budget users; and 3) municipalities. The Public Property Administration organized training sessions for direct budget beneficiaries at the end of 2015 and beginning of 2016. A total of 62 authorities responded to the invitation for training and a total of 106 employees were trained. Migration of data is underway, and bearing in mind the complexity of the migration process, as well as the need for additional software assistance which will provide smooth functioning of the system, an additional period of time will be required for its completion. Upon completion of the migration of data, the application will be put into productive operation.

When it comes to the introduction of the **ESA 2010 methodology**, the relevant institutions – the Ministry of Finance, Statistical Office – Monstat and the Central Bank – implemented a number of activities in 2016 that have resulted in significant progress in this area. In May 2016, Monstat, Ministry of Finance and the Central Bank signed an agreement on cooperation in the field of national accounts statistics of the general government and related statistics. The purpose of the Agreement is to establish, in accordance with the applicable principles, responsibility and accountability of all three institutions for a particular area of official statistics at the level of the State of Montenegro, bearing in mind the data requirements of the European Commission, European Central Bank and the International

Monetary Fund. The division of tasks and responsibilities is the initial step in the implementation of activities relating to the future amendment to the regulatory framework. Furthermore, the Agreement establishes the responsibilities and obligations for the collection and exchange of information between the parties in order to produce official statistics, ensures the application of the principle of professional independence in the production of data and defines the modalities of cooperation, decision-making and monitoring the implementation of the Agreement. In order to ensure effective implementation, a committee was formed to monitor the implementation, whose meetings are held quarterly in order to make decisions on key issues and future work in the field of general government statistics. The committee is responsible for managing and monitoring the implementation of the Agreement, consideration of the issue of classification of institutional units with particular focus on the institutional units of general government sector, professional consultation relating to the development of official statistics in order to implement ESA 2010 and the resolution of outstanding issues in the field of implementation of the ESA. The Ministry of Finance also formed a working team in charge of the implementation of the ESA 2010 methodology, which, among other things, works on the GFS (Government Finance Statistics) in cooperation with the consultant engaged under the IPA 2013 project<sup>10</sup>. In 2016, representatives of the Ministry of Finance attended meetings of the EU Member States, as candidate country, for the excessive deficit procedure (EDP) and the workshop on Government Finance Statistics (GFS), which were held in Luxembourg.

In terms of activities under the Action Plan due in 2016, intensive efforts were made at the institutional classification of the General Government. The subsectors of Central (S 1311), Local Government (S 1313), and the subsector of the Funds for Mandatory Social Insurance (S 1314) were defined. Also, the sector of Non-Financial Public Institutions (S 11001) was defined and market tests were carried out for all borderline cases. The Central Bank of Montenegro defined the sector of Public Financial Institutions (S 12), and the Statistical Office of Montenegro defined the sectors of Non-Financial Institutions (S 11), the sector of Households (S 14) and the sector of Non-Profit Institutions Serving Households (S 15). Adoption of institutional classification is planned for the first quarter of 2017.

In the area of economic classification, translation tables from the national chart of accounts to ESA 2010 codes were prepared. Time adjustment of the main categories of income and the calculation of interest according to the ESA 2010 methodology are underway. Also, we are working on recording guarantees, dividends and capital injections according to the rules in the Manual on Deficit and Debt and the ESA 2010 methodology. The working team, in cooperation with the expert, prepared: the form for the time adjustment of the main categories of income, form for the calculation of interest, form for the super dividend test and the form for recording guarantees.

A high level of harmonization of the functional classification with the COFOG classification (Classification of the Functions of Government) was achieved, which is necessary for the

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<sup>10</sup>Consultant Nikola Ljubić Karanović from the Croatian National Bank

implementation of the above mentioned methodology, and therefore we do not expect significant changes. In the coming period, in line with the Action Plan, it is expected to intensify work on improving the GFS procedures. During the missions with the expert engaged under the IPA project, all the necessary data sources for the implementation and reporting were identified. Technical assistance for GFS was also provided by the IMF. Training sessions and missions of experts were also provided as part of the technical assistance. The first training session will be held in Ljubljana from 13 to 17 March this year, which will be attended by representatives of the Ministry of Finance, Central Bank and Monstat, while the first mission with the expert from the IMF Department of Statistics will be held in April.

### **Area E: Development and strengthening of external audit**

Activities in the area of development and strengthening of external audit should contribute to the realization of the following objective: to standardize the process of performing financial audits, compliance audit and performance audit in accordance with the ISSAI standards.

In accordance with the obligations set out in the Action Plan, the State Audit Institution has been working on the harmonization of the draft guidelines for the audit of final accounts of the State Budget with the SIGMA experts since July 2016. In the coming months, it is expected that the SIGMA experts will submit their comments on the updated version of the draft guidelines and the mission of the SIGMA experts will be held in the same period to discuss in more detail the suggestions and to obtain corresponding explanations. The SAI plans to provide a study visit through the TAIEX to one of the EU Member States, in order to learn more about the experiences related to the audit of final accounts of the State Budget. In July 2016, the SAI also prepared the first draft guidelines for evaluating the application of the criterion of fiscal responsibility, followed by the harmonization of the text of the guidelines with the representatives of SIGMA. The drafting of the final text is underway, after which the draft will be submitted for approval to the SAI Senate.

When it comes to activities relating to the provision of adequate space for the operation of the SAI, which will improve the audit capacity, the SAI conducted public procurement of office space through an open procedure in the fourth quarter of 2016. Given the fact that there were no bids, the procedure was cancelled, and the procurement is planned under the SAI 2017 Procurement Plan. Decision on launching the tender procedure was passed and the preparation of tender documents is underway.

In 2016, the SAI continued the implementation of the training activities of employees by organizing trainings on the topic of evaluating the reliability of the system of internal controls, amendments to the Law on Public Procurement, the use of advanced information tools. Representatives of the SAI attended a number of seminars and workshops in 2016 on various topics in the field of external audit, organized by the Serbian SAI, Hungarian SAI, the

European Federation of Accountants, Institute for State Audit of Macedonia etc. In 2016, the SAI signed an Agreement on Cooperation with the Institute of Accountants and Auditors of Montenegro, which aims to raise the quality of professional skills of auditors in the field of accounting and auditing. As a result of successful implementation of the project of “Parallel Performance Audit – PPA I”, members of the Network of Supreme Audit Institutions of Member States, candidates and potential candidates for membership of the EU have agreed to support the initiative to implement in 2016-2017 the second project of “Parallel Performance Audit – PPA II”. The SAI together with representatives of supreme audit institutions in the region actively participated in this project, while expert support to the Network members is provided by the National Audit Office of Sweden and the European Court of Auditors in Luxembourg.

The activities of the **Audit Authority**, which were not initially covered by the Programme, were added to Area E in the Action Plan, which relates to the development and strengthening of external audit. The Action Plan envisages that the implementation of most of the activities of the Audit Authority, relating to strengthening the capacity of the institution, improving the audit manual for the different types of audits, development of a strategic plan, introduction of quality assessment, will start in late 2017/early 2018. There were no activities of the Audit Authority from the Action Plan that became due in the reporting period.

In 2016, the Audit Authority prepared annual plans and implemented all the planned audits of the entities responsible for the management and implementation of the Operational Programme of “Regional Development 2012-2013”, Operational Programme of “Human Resources Development 2012-2013”, cross border cooperation programmes in financial perspective 2007- 2013. The audit strategies were prepared for the period 2017-2019 for the programmes implemented under the IPA II perspective.

Representatives of the Audit Authority participated in a conference of IPA II audit bodies, workshops organized by the Directorate-General for Neighbourhood and Enlargement Negotiations, European Commission, Institute of Accountants and Auditors of Montenegro, Human Resources Management Authority. In order to ensure better organization of work and the fulfilment of all the requirements for conducting audits of programs financed under the Instrument for Pre-Accession Assistance under decentralized or indirect management, a new Rulebook on Internal Organization and Systematisation of the Audit Authority was adopted in November 2016. Recruitment procedures were carried out for three new auditors, so that the institution now has 19 employees, of which 14 auditors. 13 auditors have acquired the certificate of state or internal auditor.

In 2016, the Audit Authority prepared a Proposal for Amendments to the Law on Auditing of the EU funds, which was adopted by the Parliament on 30 July 2016.

### **III CLOSING REMARKS**

The implementation of all the activities that, in line with the action plan, became due in 2016 was initiated (and in some cases completed), so it may be concluded that satisfactory progress has been made in a number of areas: the implementation of ESA 2010, the transition to accrual accounting, reform of the Directorate for Public Debt Management, external auditing, customs etc. The deadline could not be met for a smaller number of activities, bearing in mind that the need for additional harmonization (preparation of fiscal strategy; the law on public procurement) and upgrading (data migration and training module for asset management) was identified during their implementation. Preparatory activities were carried out for a large number of measures that are due in 2017 and the implementation is expected to be in accordance with the planned schedule. However, as noted in the report, the start of implementation of a significant number of activities in the Action Plan was postponed, in relation to the plan in the Programme. The reason for the postponement is the delay of the start of implementation of projects which will be financed from the Instrument for Pre-Accession Assistance (IPA) through which implementation of a large number of activities in various areas of public financial management reform is planned. The implementation of the Programme within the deadlines defined in the document largely depends on the timely start of implementation of the above projects, which are a key source of necessary knowledge that is required for the transfer of best international experience. Although the preparation of tender documents for a large number of the projects is in the final stage, it is necessary to intensify the activities in order to announce tenders as soon as possible, and in this regard to strengthen the coordination of different stakeholders in the process of preparing and announcing tenders, in order to avoid further delays in the implementation of the activities defined in the Programme and in the Action Plan.

Strengthening coordination and monitoring the implementation of the Programme is also significant in terms of future activities relating to the need for reporting in order to prepare the request for sectoral budget support, but also the need to report on progress within the meetings of the Special Working Group on Public Administration Reform. In this regard, it is necessary to consider the possibility of changes in the composition of the Coordination Group, in order to include in its work the representatives of all relevant institutions, in particular of the institutions responsible for the areas that were subsequently added to the Action Plan, and to establish the practice of holding regular meetings of the group and preparing reports to the top management in the Ministry of Finance and the SAI Senate.

The Programme is a “living document”, which implies its innovations on annual basis, in line with the experience gained during its implementation, and possible changes in the European legislation. Bearing in mind that in 2016 the Coordination Group identified the need for the Action Plan to include three new areas: customs, State aid and audit of the EU funds, it is important to adopt the innovated Programme in the coming months that would cover these areas and to define specific objectives and implementation indicators. Also, possible changes to the Programme should be considered in the context of potential organizational and functional changes in the institutions responsible for specific areas of the Programme.

**Annex 1** Tabular overview of the implementation of the activities in the Action Plan that became due for the implementation of the Public Finance Management Reform Programme, the start or completion of which is planned in 2016

| <b>Area A: Sustainable fiscal framework, planning and budgeting of public expenditure</b>   |   |                              |   |
|---|---|------------------------------|---|
| <b>Sub-area A.1 Medium-term budgetary framework, including fiscal strategy</b>  |   |                              |   |
| <b>Activity</b>   | <b>Deadline</b>   | <b>Implementation status</b> | <b>Explanation</b>  |
| <b>Activity A.1.1</b> Develop fiscal strategy in accordance with the Law on Budget and Fiscal Responsibility  | planned start date: Quarter IV 2016;<br>planned completion date: Quarter I 2017   | Implementation underway      | First draft strategy prepared; planned to be adopted by the Government in quarter II 2017;  |
| <b>Activity A.1.2</b> Prepare a plan of fiscal policy measures in case of deviation of the main fiscal aggregates from the levels defined by the fiscal rules                     | planned start date: Quarter III 2016;<br>planned completion date: Quarter II 2017 | Implemented                  | Budget Deficit and Public Debt Recovery Plan adopted by the Government and discussed by the Parliament within the explanation of the 2017 Budget Law.   |
| <b>Activity A.1.6</b> Make analysis of functionalities of the existing system of strategic planning including a comparative analysis of the systems in the neighbouring countries | planned start date: Quarter IV 2016;<br>planned completion date: Quarter I 2017;  | Implementation underway      | In cooperation with SIGMA, implemented in the part related to comparative analysis of the systems in the neighbouring countries (so far prepared for Croatia and Serbia);   |
| <b>Activity A.1.7</b> Develop methodology for the preparation of strategic documents including the determining of minimum conditions for the contents of sectoral strategies      | planned start date: Quarter IV 2016;<br>planned completion date: Quarter I 2017   | Implementation underway      | Bearing in mind that the area of strategic planning, in line with the amendments to the Decree on organization and work of public administration, is now under the competences of the newly formed Ministry of European Affairs, it is expected that the activities on preparation of the methodology will be |

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|  |  |                         | intensified in the first half of 2017;   |
| <b>Activity A.1.8</b> Create an institutional and regulatory framework for strategic planning at the level of public administration/determine their legal responsibility for implementation of the new planning process  | planned start date: Quarter IV 2016;<br>planned completion date: Quarter I 2017  | Implementation underway | Decree amending the Decree on organization and work of public administration adopted; adoption of the Government Rules of Procedure is to follow;                        |
| <b>Sub-system A.2. Annual budgeting</b>  |  |                         |  |
| <b>Activity A.2.1</b> Consider the existing regulation and procedures related to budgeting and, based on the findings and best practices and experiences in this area, amend the national legislative framework with the aim to establish preconditions for full implementation of the programme | planned start date: Quarter I 2016;<br>planned completion date: 2018             | Implementation underway | New draft decision on the method of preparation and contents of the program budget prepared; Decision will be adopted in quarter II 2017;                                |
| <b>Sub-system A.3. Capital budget</b>  |  |                         |  |
| <b>Activity A.3.8</b> Create the concept of further development of capital budget  | planned start date: Quarter IV 2016;<br>planned completion date: Quarter II 2017 | Implementation underway | Activities related to consideration of the existing process of preparation and creation of the capital budget initiated, in order to identify potential for improvement; |
| <b>Area B: Budget execution</b>  |  |                         |  |
| <b>Sub-area B.1 Collection of revenues – Tax Administration</b>  |  |                         |  |
| <b>Activity B.1.4</b> Strengthen administrative and operational capacities of the Tax Administration of Montenegro in line with the EU standards and requirements defined in Chapter 16 – Taxation (;)   | planned start date: Quarter IV 2016;<br>planned completion date: 2018            | Preparation underway    | Activity will be implemented within Twinning project IPA 2014 “Support for the Tax Administration”; implementation is expected to start in quarter II 2017;              |

| <b>Sub-area B.3. Public procurement</b>   |   |                         |   |
|---|---|-------------------------|---|
| <b>Activity B.3.1</b> Discuss the legislative framework for public procurement, i.e. amendments to the Law on Public Procurement (Official Gazette of Montenegro 57/14) and relevant bylaws in order to harmonize them with the EU legislation                                | planned start date: Quarter II 2016;<br>planned completion date: Quarter III 2016 | Implementation underway | In order to prepare the new Draft Law on Public Procurement, analysis of the existing legal framework was made; the Draft Law was prepared;                           |
| <b>Activity B.3.2</b> Compose the concordance table in order to assess the level of harmonization of the amended Law on Public Procurement (Official Gazette of Montenegro 57/14) and relevant bylaws with the EU legislation (Directive 2014/24/EC and Directive 2014/25/EC) | planned start date: Quarter II 2016;<br>planned completion date: Quarter III 2016 | Implementation underway | Follows Activities B.3.1 and B.3.3; the table of concordance was prepared in parallel with the preparation of the Draft Law on Public Procurement;                    |
| <b>Activity B.3.3</b> Prepare the Draft Law on Public Procurement and bylaws (including forms, standard tender documents, model contract and manual on public procurement)  | planned start date: Quarter III 2016;<br>planned completion date: Quarter II 2017 | Implementation underway | Draft prepared; the 2017 Annual Programme of the Government includes the plan to adopt the proposal for the new Law in quarter II 2017;                               |
| <b>Activity B.3.6.</b> Awareness raising campaign   | planned start date: Quarter III 2016;<br>planned completion date: Quarter IV 2017 | Implementation underway | Directions and method of implementation of the awareness raising campaign established;  |
| <b>Sub-area B.4 State aid</b>   |   |                         |   |
| <b>Activity B.4.3</b> Monitoring track record through analysis of national cases of State aid in the EC common law  | planned start date: Quarter II 2016;<br>planned completion date: Quarter I 2019   | Implementation underway | Department for State aid monitors track record in the context of passing decisions on compliance with the State aid rules; 19 cases of State aid implemented in 2016; |
| <b>Sub-area B.5 Reform of the Department for debt management, analysis of indebtedness, cash management and foreign relations</b>   |   |                         |   |
| <b>Activity B.5.1</b> Restructuring of the Department for debt management, analysis of indebtedness, liquidity  | planned start date: Quarter II 2015;  | Implementation underway | Proposal for the new structure of the Directorate for Public Debt Management  |

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| management and foreign relations into department for policies and procedures (front office) and department for support (back office)   | planned completion date:<br>Quarter IV 2016  |                            | prepared; the dynamics of implementation of changes in the structure will depend on the dynamics of adoption of the new Rulebook on Systematisation of the Ministry of Finance;  |
| <b>Activity B.5.2</b> Training of employees in the Department for debt management, related to various financial operations, awareness and trainings on various financial derivatives, preparation and analysis of indebtedness, better debt management | planned start date:<br>Quarter I 2016;<br>planned completion date:<br>Quarter II 2017  | Implementation<br>underway | With the support from the IMF, trainings were organised on the topic of analysis of indebtedness and preparation of strategy for public debt management;   |
| <b>Activity B.5.3</b> Implementation of new software mechanism for public debt and cash management   | planned start date:<br>Quarter II 2015;<br>planned completion date:<br>Quarter IV 2016 | Implemented                | Software solution implemented;   |
| <b>Activity B.5.5</b> Analysis of weaknesses in the existing Strategy and development of the Public Debt Management Strategy 2018-2020   | planned start date:<br>Quarter I 2016;<br>planned completion date:<br>Quarter IV 2017  | Implementation<br>underway | Analysis of the weaknesses of the existing Public Debt Management Strategy made; new debt management strategy, which will cover the period 2018-2020, will be finalized and adopted in the first half of 2018  |
| <b>Sub-area B.6 Reform of the payroll system in public sector</b>  |  |                            |  |
| <b>Activity B.6.1</b> Development and adoption of the regulation on salaries of public employees   | planned start date: 2014;<br>planned completion date:<br>Quarter II 2016               | Implemented                | Law on Salaries of Employees in the Public Sector adopted in February 2016;  |
| <b>Activity B.6.2</b> Implementation of new software for payroll calculation and control in the public sector  | planned start date:<br>Quarter IV 2016;<br>planned completion date:<br>2018            | Preparation<br>underway    | Preparation of tender documents for implementation of the IPA project (component II of the project “Support for public finance management policies”), which will ensure implementation of the new software solution for centralized payroll calculation, is in the final stage |

**Area C: Development of public internal financial control (PIFC)**

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| <b>Activity C.1.9</b> Strengthening capacities of the CHU to assess quality of financial management and control and internal audit | planned start date: Quarter II 2016;<br>planned completion date: Quarter IV 2017 | Implementation underway | With the support of SIGMA, quality assessment of financial management and control was carried out in two institutions; the so called FOCUS group was organized; based on the guidelines given, the CHU carried out quality assessment of financial management and control in three more institutions. |
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**Area D: Financial reporting and accounting**

**Sub-area D.1 Transition from cash to accrual accounting and financial reporting**

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|---|---|-------------------------|--|
| <b>Activity D.1.1</b> Provide training on accrual accounting for public accountants   | planned start date: Quarter I 2016;<br>planned completion date: Quarter IV 2017   | Implementation underway | The first round of trainings implemented in 2016 for 40 participants from various public administration authorities; start of the new round of trainings planned for March 2017; |
| <b>Activity D.1.3</b> Adjust the chart of accounts to the new accounting requirements | planned start date: Quarter I 2016;<br>planned completion date: 2019              | Implementation underway | Work on updating of the chart of accounts, which will be aligned with the needs of accrual accounting, is underway, in cooperation with UNDP and an expert from Slovakia.        |
| <b>Activity D.1.7</b> Implementation of Commitment Module for two ministries          | planned start date: Quarter III 2015;<br>planned completion date: Quarter IV 2016 | Implemented             | Modules were implemented and are in production as of 1 April 2016;   |
| <b>Activity D.1.8</b> Implementation of Asset Management Module                       | planned start date: Quarter III 2015;<br>planned completion date: Quarter IV 2016 | Implementation underway | Software was programmed and partial migration of data was carried out  |
| <b>Activity D.1.9</b> Provide training for public                                     | planned start date:   | Implementation          | Training implemented for representatives of  |

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| accountants on the new implementation regulation and use of the new asset management module                                  | Quarter III 2015;<br>planned completion date:<br>Quarter IV 2016                        | underway                   | <u>direct budget users</u> on the use of the new asset management module;   |
| <b>Sub-area D.2. Alignment with the European System of Accounts (ESA) 2010 and the Government Financial Statistics (GFS)</b> |   |                            |   |
| <b><u>Activity D.2.1</u></b> Institutional classification  | planned start date:<br>Quarter I 2016;<br>planned completion date:<br>Quarter I 2017    | Implementation<br>underway | Institutional classification finalized; adoption planned for quarter I 2017;  |
| <b><u>Activity D.2.2</u></b> Economic classification   | planned start date:<br>Quarter I 2016;<br>planned completion date:<br>Quarter II 2017   | Implementation<br>underway | Translation tables for the national chart of accounts to the ESA 2010 codes prepared; work on time adjustment of the main categories of income and calculation of interest according to the ESA 2010 methodology is underway; form for time adjustment of the main categories of income, form for interest calculation, form for super dividend test and form for recording guarantees prepared |
| <b><u>Activity D.2.3</u></b> Functional classification   | planned start date:<br>Quarter II 2016;<br>planned completion date:<br>Quarter III 2017 | Implementation<br>underway | High level of alignment of functional classification with the COFOG classification (Classification of the Functions of Government) which is required for the implementation of the above methodology was achieved, and therefore no significant changes are expected;   |
| <b><u>Activity D.2.5</u></b> Changes in the regulatory framework   | planned start date:<br>Quarter IV 2016;<br>planned completion date:<br>Quarter I 2018   | Implementation<br>underway | Initial step for the future amendments to the regulatory framework is the signing of the Agreement between the MF, CB of Montenegro and Monstat, providing for division of tasks, competences and responsibilities; intensifying of the work on   |

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|  |  |                         | amendments to the regulatory framework is expected in the following period  |
| <b>Activity D.2.6</b> Improvement of GFS procedures  | planned start date: Quarter III 2016;<br>planned completion date: Quarter II 2018  | Implementation underway | Work was initiated on improvement of GFS procedures the intensifying of which is expected in the following period; Technical support was also provided by the IMF for GFS.  |
| <b>Area E: Development and strengthening of external auditing</b>  |  |                         |   |
| <b>Sub-area E.1. Capacity of the SAI to meet the INTOSAI standard</b>  |  |                         |   |
| <b>Activity E.1.6</b> Guidelines for the audit of final accounts of the State Budget and organization of a workshop (training) for the audit staff on implementation of the guidelines for the audit of final accounts of the State Budget | planned start date: Quarter III 2016;<br>planned completion date: Quarter III 2017 | Implementation underway | The SAI has worked on alignment of the Draft Guidelines for the audit of final accounts of the State budget with the SIGMA experts since July 2006; it is expected that the SIGMA experts will deliver their comments to the updated version of the Draft guidelines in the following months;   |
| <b>Activity E.1.7</b> Guidelines for the assessment of the application of the fiscal responsibility criterion  | planned start date: Quarter III 2016;<br>planned completion date: Quarter II 2017  | Implementation underway | The first Draft Guidelines for the assessment of the fiscal responsibility criterion application was prepared in July 2016, which was followed by alignment of the text with the SIGMA representatives; preparation of the final text is underway, after which the Draft will be submitted to the SAI Senate for adoption;  |
| <b>Activity E.1.8</b> Provide required premises for the work of the SAI in order to increase auditing capacity   | planned start date: Quarter I 2016;<br>planned completion date: 2018               | Implementation underway | In quarter IV 2016, the public procurement procedure for the office space was implemented via open procedure. Given the fact that there were no bids, the procedure was cancelled and the procurement is planned under the Public Procurement Plan of the SAI for 2017. Decision on announcement of tender procedure has been passed and preparation of tender documents is underway; |



