

# State audit institution of Montenegro

## AUDIT OF THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS OF POLITICAL ENTITIES

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- Sector IV responsible for auditing political entities;
- Chairman of the Senate – member of the Senate manages the work of the Sector IV.



- Constitution of Montenegro;
- Law on the State audit institution;
- Law on financing political entities and election campaign
- Instruction on methodology for financial and regularity audit.

## Short retrospective

### Law on financing political entities and election campaign (2012)

- The State audit institution shall carry out audit of annual financial statements of political entities every year and audit of the Statements on origin, structure and amount of obtained and spent funds for financing election campaign.

### Law on financing political entities and election campaign (2015)

- The State audit institution shall audit annual consolidated financial statements of political entities with total income exceeding over 10.000 €.

### Law on financing political entities and election campaign (2020)

- The State Audit Institution shall audit the consolidated financial statements of political entities based on the assessed risk and the criteria from the Instruction on the Methodology of Performing Financial Audit and Regularity Audit.
- Over a four-year period, the State Audit Institution shall audit the annual consolidated financial statements of all political entities with a parliamentary status at national and local levels

Why is it important to audit political entities?

- Legal obligation defined by the Law
- Amount of funds allocated to parties each year
- Public interest

- Political entities are the following ones: political parties, coalitions, groups of voters and candidates for the election of the President of Montenegro
- Requirements and manner for establishment, organization, registration, association and termination of the work of the political entities are prescribed in the Law on political entities, while Montenegro has not prepared special regulation for defining other forms of political organizations as groups of voters and etc.
- The Law also prescribes the obligation of political entities to keep accounting records of revenues, assets and expenditures by origin, amount and structure of revenues, assets and expenditures in line with the regulation of the Ministry.

Political entities may acquire funds for regular operation and election campaigns from public and private sources

Amount of budgetary funds for financing regular work of political entities in Parliament represents **0,5% of the current budget** for the year for which the budget is adopted.

Distribution of budgetary funds for financing regular work of the political entities is carried out in a manner that **20% of the funds shall be distributed in equal amounts to political entities in the Parliament, or municipal assemblies, 60% of funds in proportion to the total number of MP and councillor seats they have at the time of distribution, while remaining 20% shall be distributed in equal amounts to political entities in the Parliament or municipal assemblies, in proportion to the number of elected representatives of the less represented gender.**

- Political entities shall receive the funds for work of the women's organizations from the state budget and budgets of local self-government units.
- The budget funds for the financing of regular activities of women's organisations within political entities amount to 0,05% of the current budget.
- The local self-government budget funds for the financing of regular activities of women's organisations within political entities amount to 0,11% of the current budget.
- The funds to the women organization shall be distributed in equal amounts to the political entities in the Parliament, or municipal assemblies. Received funds shall be earmarked for financing women organizations within the political entities and may be used and spent in line with the statute of this women organization.



- State and local self-government budgetary funds for **financing costs of election campaign** shall be provided in the year in which regular elections are held and in amount of **0,25% of the current budget**.
- Funds amounted to **20% shall be distributed in equal amounts to the political entities**, which election lists have been confirmed, while other **80% of funds shall be distributed to political entities, which won mandate in proportion to the number of seats awarded**.
- Political entity shall close the **separate giro account opened for election campaign within 90 days from the day final election results are announced**;

- Private sources are the following: membership fees, contributions, income from legacies and loans from banks and other financial institutions in Montenegro.
- Non-financial contributions are calculated at a market value and are reported as income.
- For financing political entity, a physical person can pay not more than 5.000,00€, and legal entity at most 20.000,00€ annually.
- Political entity may collect funds for financing election campaign from private sources only during the election campaign.

## Common irregularities identified in audit of political entities

- payment of election campaign expenses via giro account of political entity for its regular business,
- special giro accounts for election campaigns are not closed within the prescribed period,
- Non-consistency of data on election expenses in the statements of political entities submitted to the Agency for prevention of corruption and the data in the business books of the audited entities,
- incomplete implementation of the Rulebook on the accounting framework while keeping records of business transactions in business books,
- irregularities in the recording and inventory of assets and liabilities and non-reconciliation of liabilities with suppliers and claims with local governments,
- irregularities in keeping accounting records (especially for public and private funds) and keeping special records on income and expenses for regular business and election campaigns,
- irregularities in financing the work of women's organizations, etc.

- Upon completion of the audit – prepared **Audit report of the annual financial statement of the political entity for the given audit year;**
- Final audit report is submitted to the **audited entity and is published at the official website of the Institution.**

State Supreme Prosecutor  
Office  
Memorandum on  
understanding

State Supreme Prosecutor  
Office Adverse opinion

Agency for prevention of  
corruption  
Memorandum on  
cooperation

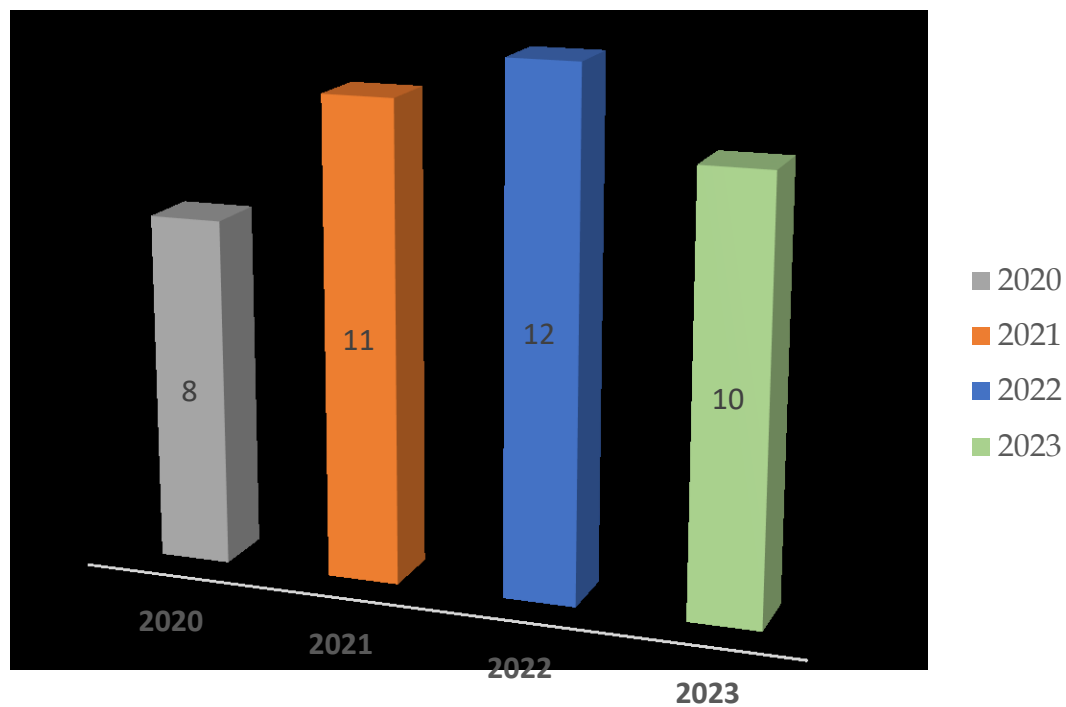
Agency for prevention of  
corruption  
Informing the Agency about  
delays in submission of  
annual reports of political  
entities

Parliament of Montenegro  
Memorandum on  
cooperation

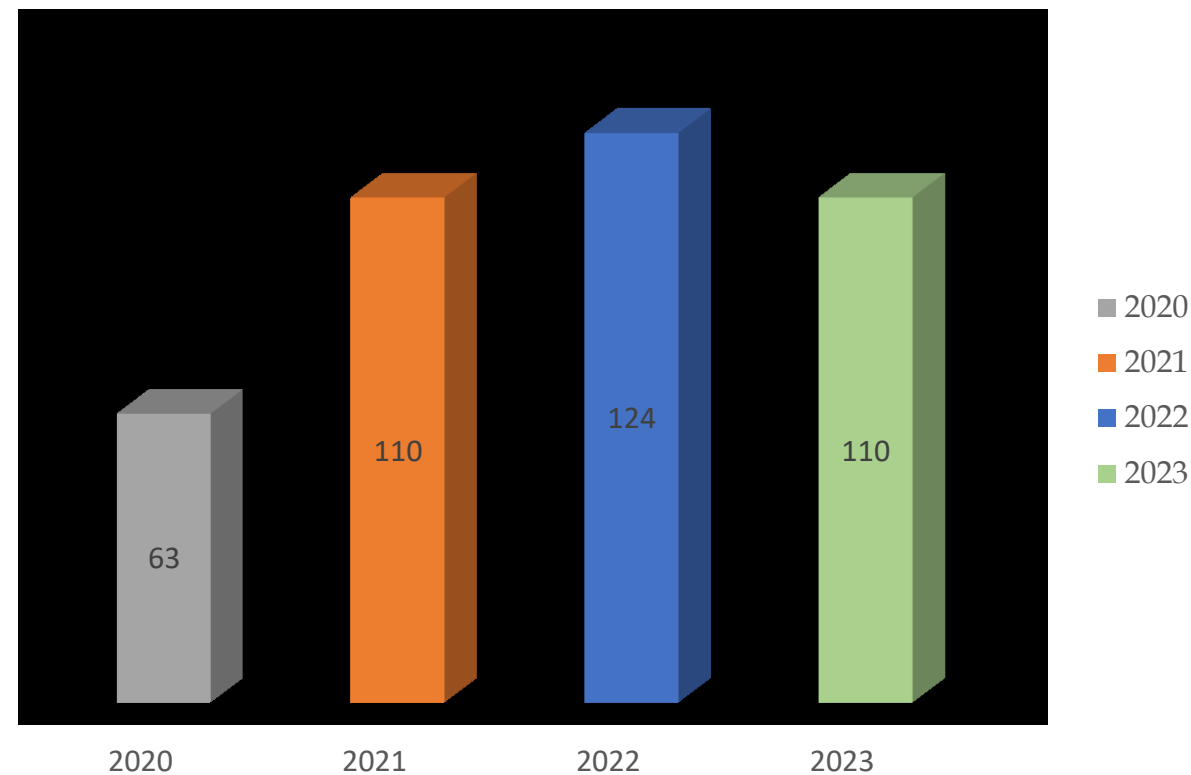
Parliament of Montenegro  
Submission of audit reports  
with adverse audit opinion

# Comparable statistical data on performed audits of political entities

## Number of audited political entities

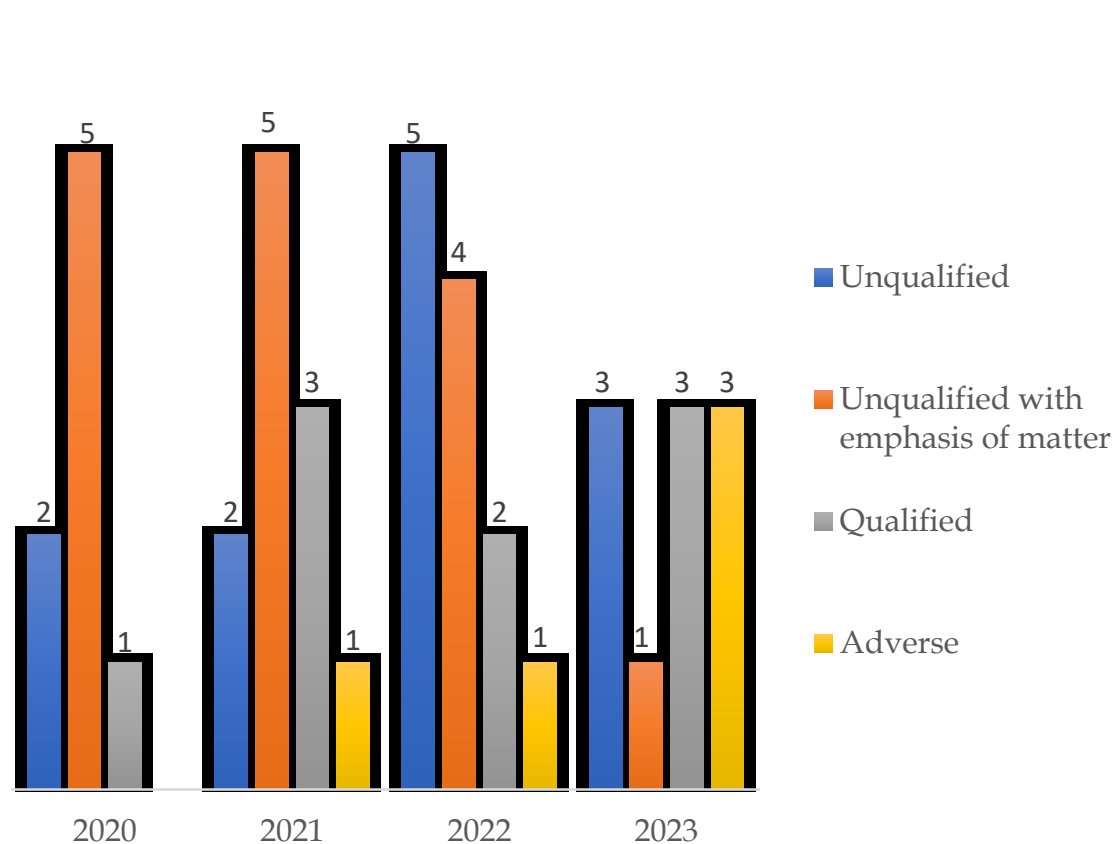


## Number of given audit recommendations

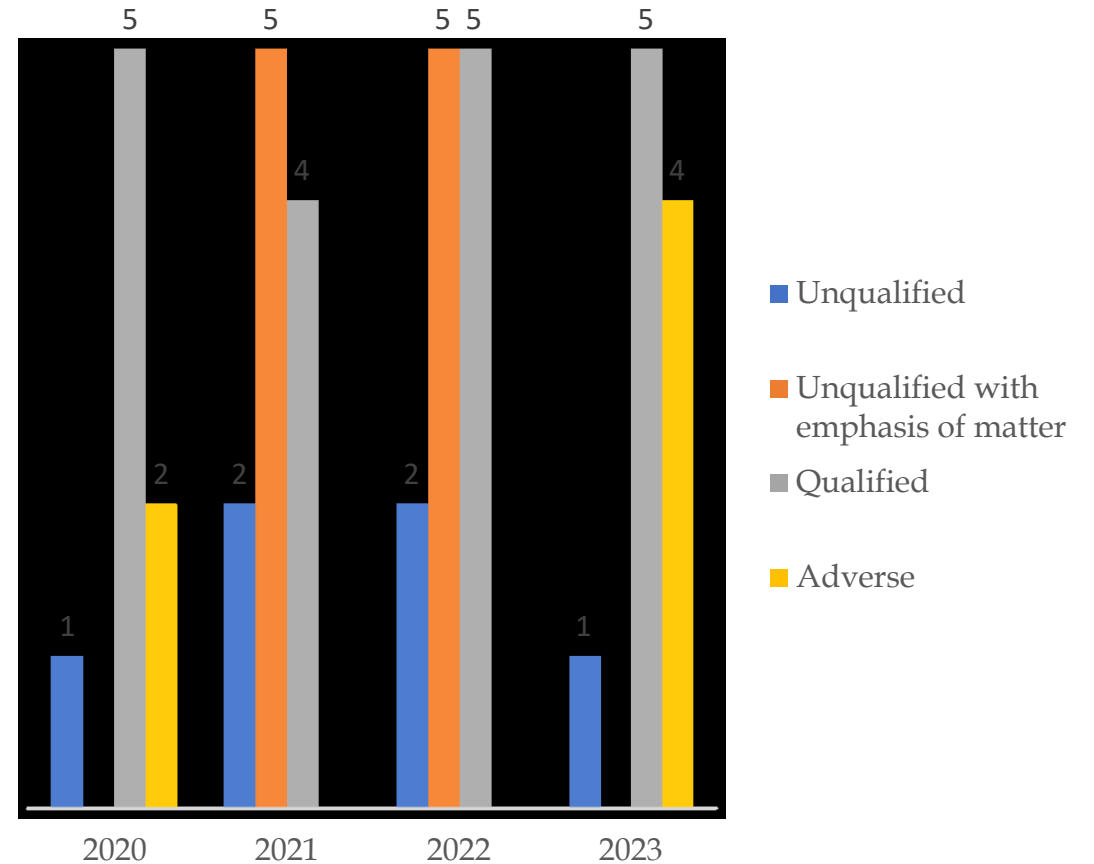


# Comparable statistical data on performed audits of political entities

## Financial audits - given audit opinions



## Regularity audit – given audit opinions



### Examples of good practice :

- Improvement of the financial management and control system;
- Keeping records of fixed assets in business books;
- Keeping prescribed accounting records;
- Reduction of cash transactions;
- Document expenditures in appropriate manner;
- Greater degree of implementation of audit recommendations given in the previous years.

### Examples of bad practice:

- Repeating the same audit recommendations every year;
- Failure to get informed and follow changes of legal regulations by the political entities;
- Failure to hold public control hearings by competent parliamentary committees in case of given adverse audit opinions;
- Failure to hold accountable persons in political entities.



### Challenges:

- Frequent election processes in Montenegro,
- Increased number of political entities,
- Lack of regulation prescribing other political organizations which take part in election like groups of voters.

### Vision:

- Improvement of transparency and accountability in use of public funds in a legal, economical, effective and efficient manner by political entities.
- The State audit institution, as an independent supreme state audit authority, will continue to perform tasks within its jurisdiction in accordance with the Constitution of Montenegro, the Law on SAI and the Framework of International Standards of Supreme Audit Institutions (ISSAI).



Thank you for  
attention.

State auditors

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