



PIFC REFORM PROGRESS IN MONTENEGRO

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How it all started (2008)

2008 PIFC REFORM

2008 First Strategy and Law

- Strategy of development of PIFC in Montenegro (December 2007)
- Law on system of internal financial controls in public sector (Official Gazzete of Montenegro, no.73/08, 20/11, 30/12 i 2014).
- Introduction of three components of PIFC : FMC, IA and CHU

CENTRAL HARMONIZATION UNIT (CHU)

- Established as Directorate within Ministry of Finance
- Recognized within Law on governance and internal controls in public sector
- Nine positions systematized including General Director by act on Internal Organization and Systematization of Ministry of Finance
- Currently six positions fulfilled including General Director
- Plans to fulfil vacancies within CHU

INTERNAL CONTROL IN PUBLIC SECTOR OF MONTENEGRO

- All public sector entities are obliged to establish system of internal controls
- COSO Framework
- Person responsible for coordination of activities on implementation and development governance and controls
- Person responsible for coordination activities on establishment risk management process

INTERNAL AUDIT IN PUBLIC SECTOR OF MONTENEGRO

- Decentralized model of establishment of internal audit
- Three centralized internal audit units (IT audit, EU funds audit, IPARD)
- Internal audit in public sector entity is established by:
 - ❖ establishment of separate internal audit unit or
 - ❖ agreement on delegation of internal audit affairs or
 - ❖ performing audit by competent public sector entity
- Decree on establishment of internal audit in public sector
- Total of 47 budget users at central and local level need to establish separate internal audit unit (31 at central and 16 at local level)
- Total of 44 of them systematized internal audit unit (31 at central and 13 at local level) and 33 appointed at least one internal auditor (20 at central and 13 at local level)

PIFC Reform in Montenegro (2012)

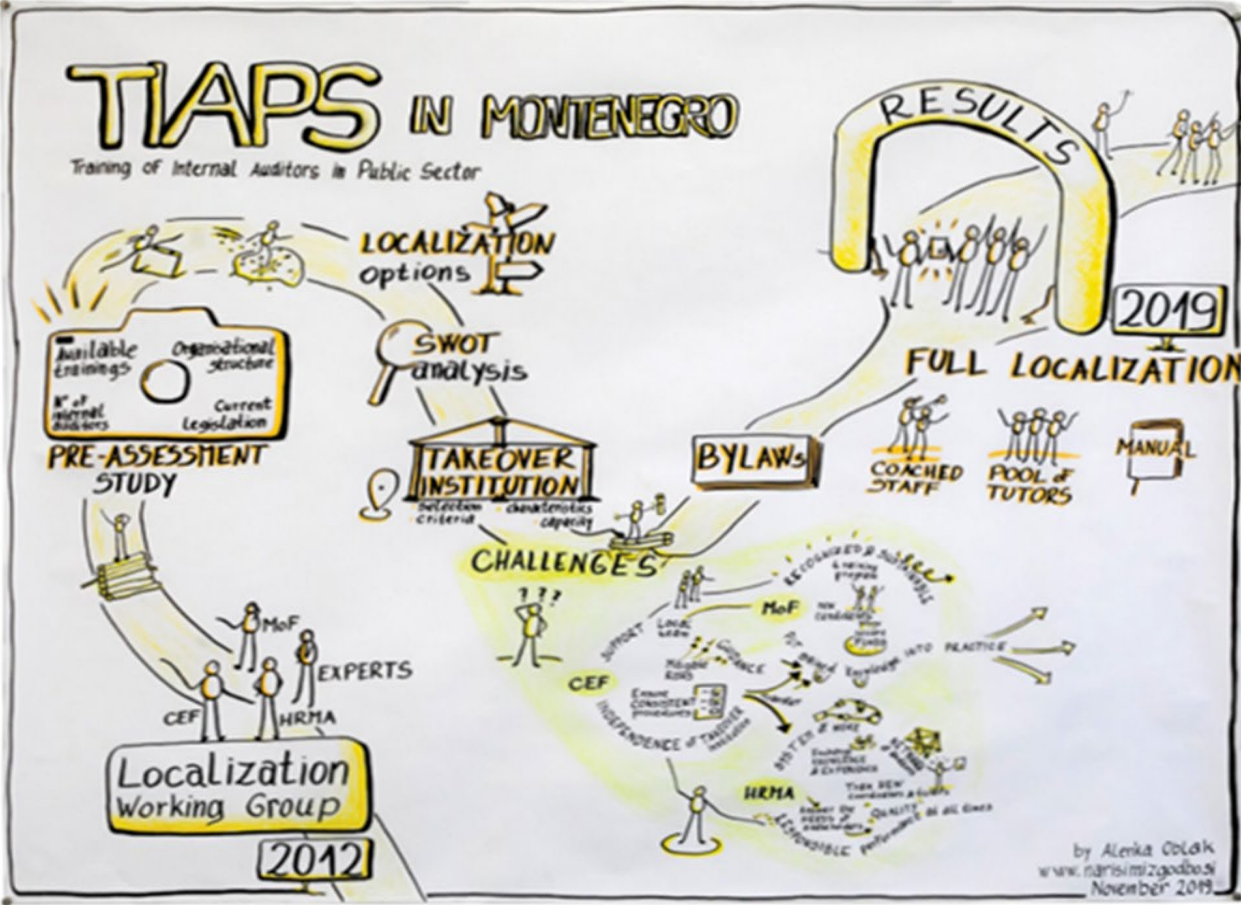
- Strategy of further development of PIFC in Montenegro 2013-2017 (prepared in 2012)

Implementation of TIAPS Montenegro (2012-2019)

- Implemented in cooperation between the Ministry of Finance CEF, CIPFA and with the support of Human Resource Management Agency
- Implemented in the period from 2012 to 2019
- Four rounds of education and certification took place

Localization process of certification of internal auditors

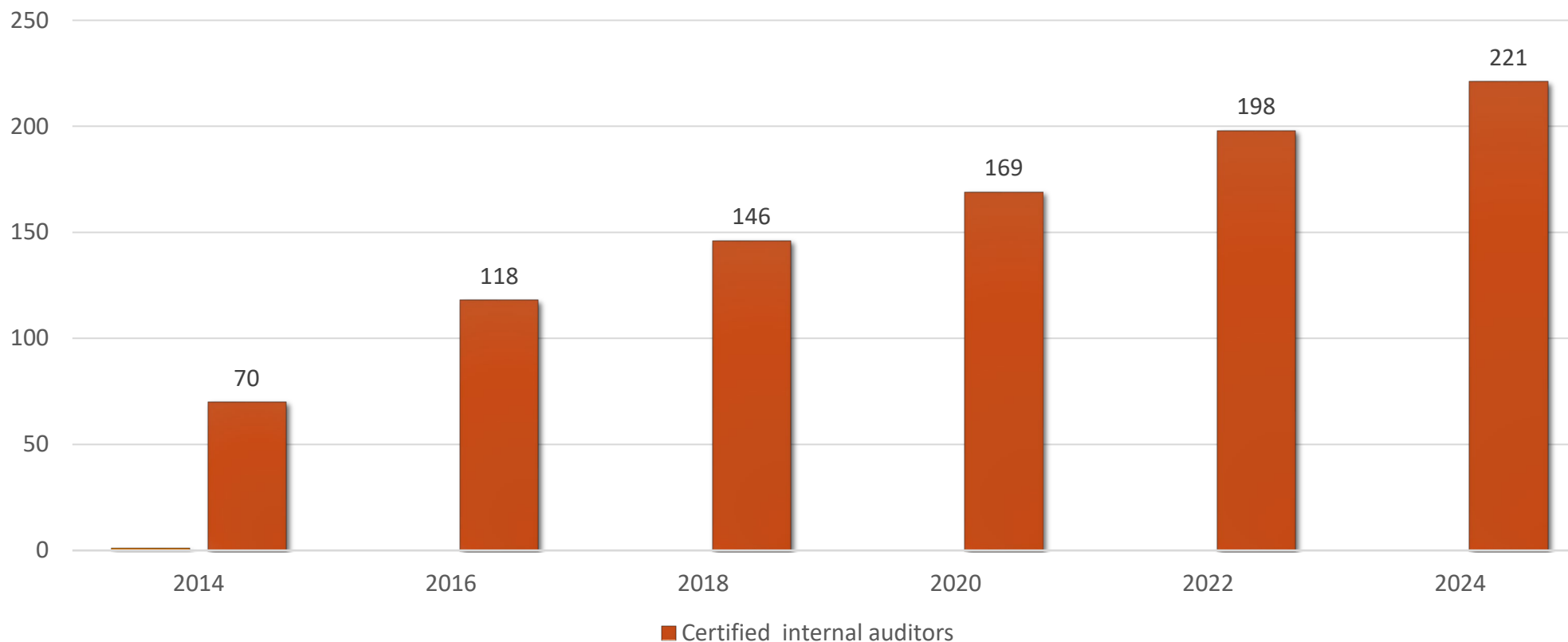
THE JOURNEY OF...



Implementation of localized Program of certification of internal auditors (2020-onward)

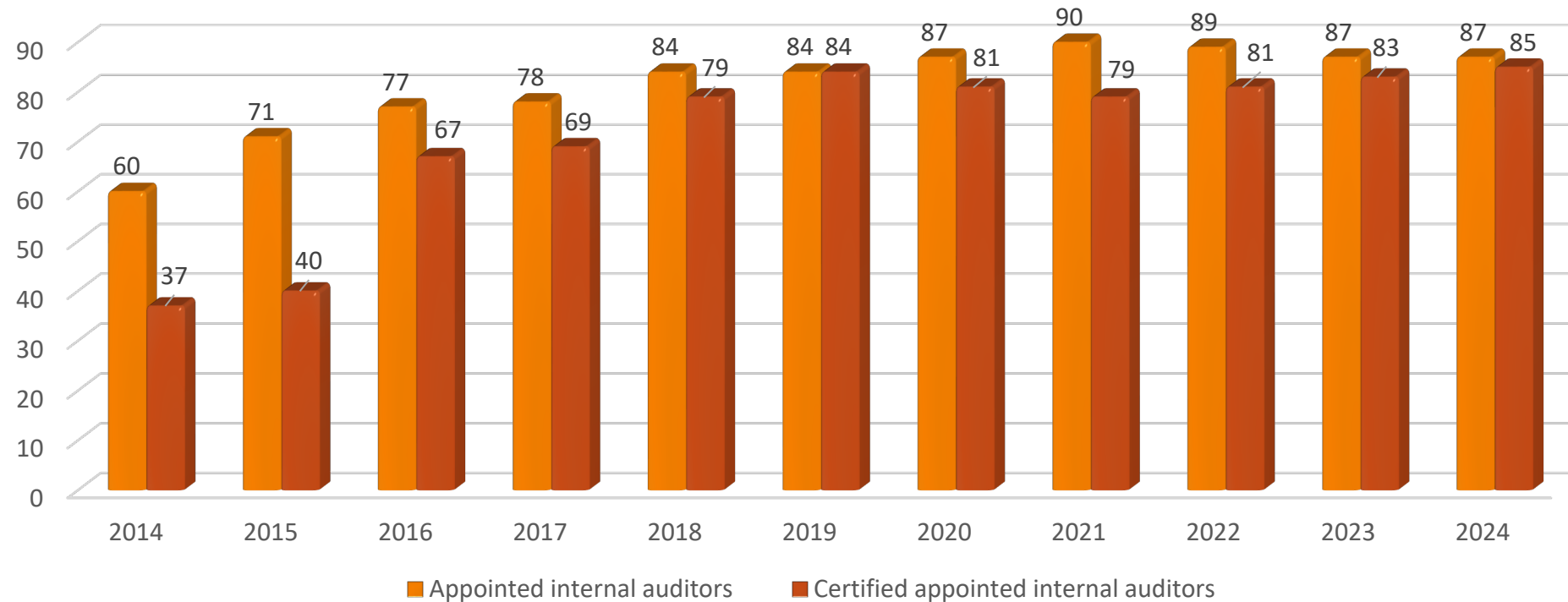
- Implemented in cooperation between the Ministry of Finance and Human Resource Management Agency
- Implementation started in 2020
- Five rounds of education and certification took place and sixth round is ongoing

Certification of internal auditors (2014-onward)



Certification of appointed internal auditors (2014-onward)

Certification of appointed internal auditors

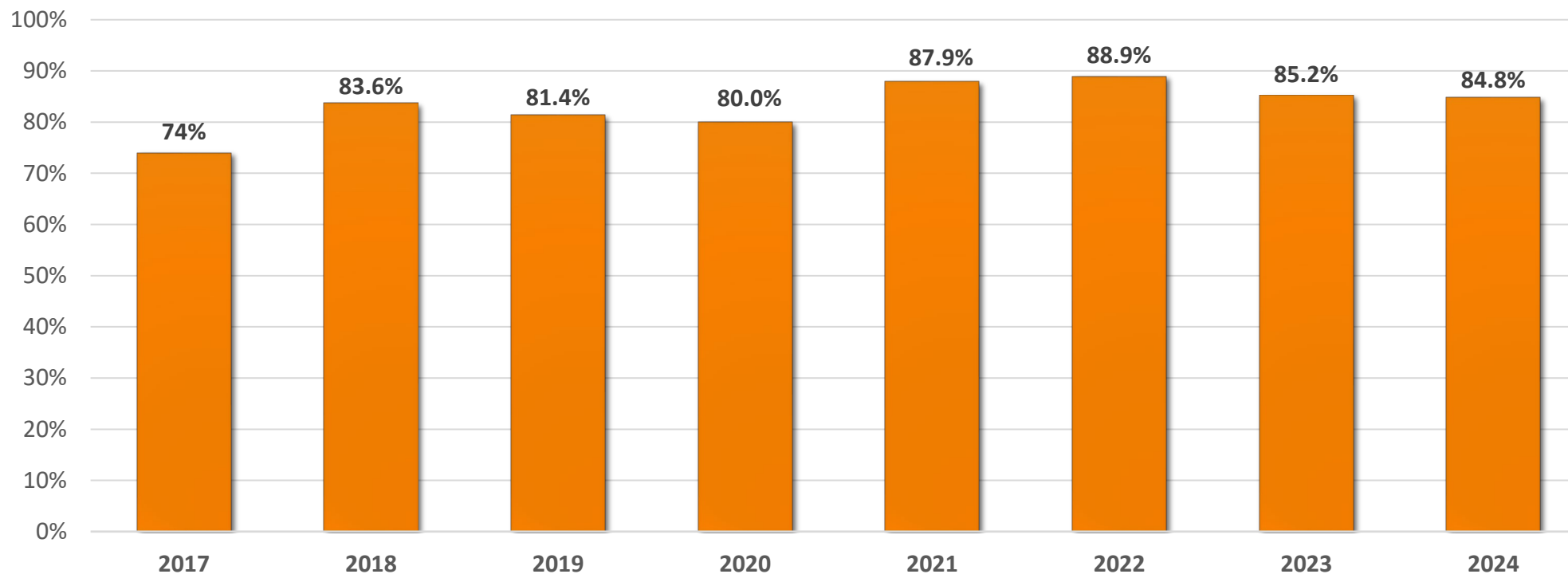


Implementation of Program of continuous professional development of internal auditors (2016-onwards)

- Implemented in cooperation of Ministry of Finance and Human Resource Management Agency
- Implementation started in 2016
- TNA conducted each year
- Almost 200 trainings conducted for internal auditors appointed in budget users at central and local level

Implementation of Program of continuous professional development of internal auditors (2016-onward)

Continuous professional development of internal auditors



Implementation of the Program of continuous professional development of persons responsible for implementation and coordination

- Implemented in cooperation of Ministry of Finance and Human Resource Management Agency
- Implementation started in 2012
- TNA conducted each year

PIFC Reform in Montenegro (2018)

- Adoption of the new Law on Governance and Internal Controls in Public Sector (Official Gazzete of Montenegro, no.75/18).

PIFC Reform in Montenegro (2018) – Key novelties of Law on governance and internal controls in public sector

- Stronger provisions for delegation of authority in public sector entities
- Establishment of internal audit better prescribed (performing audit based on entity supervision and possibility to perform mutual audits)
- Procedure in case of conflict of interests of head of internal audit unit and internal auditors prescribed
- Obligation for preparation of QAIP for head of internal audit unit foreseen
- Removal of obligation for preparation of quarterly report of IA unit
- Introduction of titles of internal auditors and better prescribed conditions for internal auditors
- Process of certification of internal auditors foreseen
- Continuous professional development of internal auditors foreseen
- Deadline for submission of annual reports of IA extended from end of January to 15th of February of current year for previous year

PIFC Reform in Montenegro (2019-2020)

- Adoption of bylaws from new Law on Governance and Internal Controls in Public Sector
- SIGMA assessment performed

PIFC Reform in Montenegro (2021)

Development of PIFC in Montenegro recognized in key Strategic documents:

- Public Administration Reform Program 2022-2026
- Public Finance Management Program 2022-2026

Key objectives:

- Implementation of managerial accountability
- Strengthening function of internal audit
- Strengthening capacities of CHU staff

PIFC Reform in Montenegro (2025)

- The new Action Plan for PFM Program 2025-2026 prepared
- The new Law on Governance, Internal Control and Internal Audit in Public Sector is being drafted
- The new methodology for work of internal auditors in public sector is being drafted
- The new EU Project „EU4PFM Montenegro“ started
- SIGMA Monitoring Report published

SIGMA MONITORING REPORT – MONTENEGRO – KEY FINDINGS (2025)



- Improvements in the area of internal control and internal audit relate to the establishment of internal control-related development goals in the PAR Strategy 2022-2026 and the PFM Reform Programme 2022- 2026.
- Implementation practices of internal control systems by budget users are inconsistent and often the responsibility of only specific functions in organisations. A wider understanding of the objectives and principles of internal control and appreciation of internal audit are lacking.
- Various developments have taken place in terms of implementing international audit standards-compliant internal audit (adequacy of the regulatory framework for internal audit 10/10)
- Certification and professional development programmes are functioning well
- Progress in implementing the requirements of the quality assurance and improvement programme.
- Internal audit units tend to be understaffed
- Implementation rate of recommendations is only at a moderate level and decreasing

PIFC Reform in Montenegro (2025) – Key novelties of new Law (draft version)



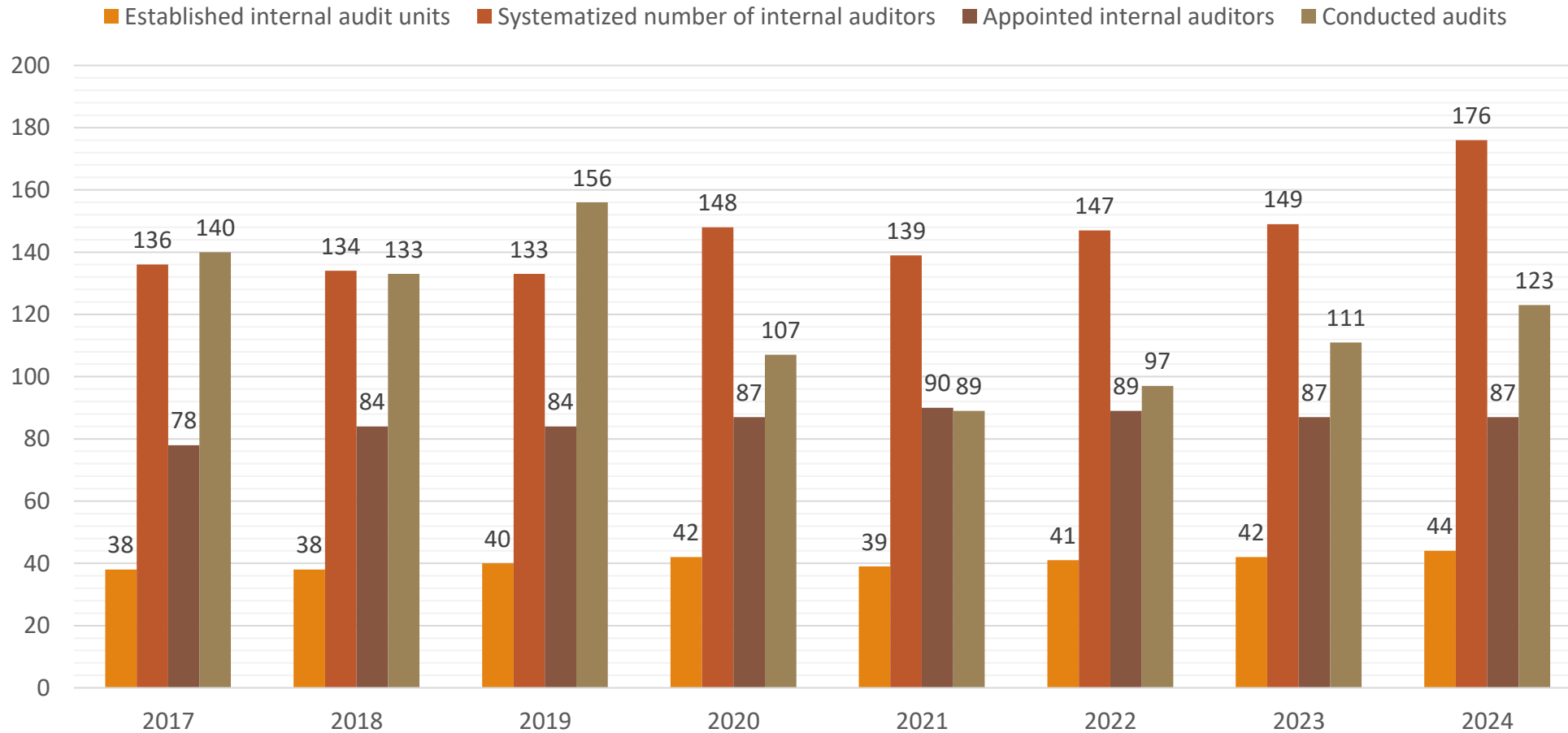
- Introduction of model of three lines and their responsibilities and accountabilities (governing body, head of subject, head of organizational unit)
- Obligation for reporting of all public sector entities to Ministry of Finance and governing bodies in order to strengthen accountability
- Introduction of new Global Internal Audit Standards
- Responsibilities of governing body with regard to function of internal audit
- Harmonization of the Law on governance, internal control and internal audit in public sector with new Law on audit
- Establishment of internal audit function in SOEs
- Relaxing conditions for starting positions in internal audit (junior and senior internal auditor)
- Extended period for certification of internal auditors (from 12 to 24 months)
- Introduction of Program Council for Internal Audit in public sector

PIFC Reform in Montenegro (2025) – Key novelties of new methodology (draft version) for work of internal auditors



- Changes in preparation of annual plan (coordination and reliance of internal audit to other assurance providers, rationale for selecting proposed engagements)
- Engagement planning (supplement of current methodology – risk and control matrix, documenting criteria for assessment of adequacy and effectiveness of controls)
- Introduction of new element within performing assurance engagement (potential finding)
- Defining methodology for determining significance of finding and its application within assurance engagement
- New approach in defining findings and conclusion
- Advisory services – more focus on this kind of services (guidelines for performing advisory services are given within methodology)
- Blended engagements (possibility for performing blended engagements)
- Communication of internal auditors to stakeholders is more emphasized

Summarized data on internal audit in public sector Montenegro



Planning of internal audit units (2024 preliminary data)

- Total of 32 internal audit units with appointed internal auditors submitted annual report to CHU
- Total of 31 internal audit units (97%) prepared strategic internal audit plan
- Total of 30 internal audit units (94%) prepared annual internal audit plan based on documented risk assessment

Challenges



- Ensuring enough and adequate capacities of IA units in public sector with focus on SOE sector
- Retention of internal auditors in public sector
- Full implementation of new Global Internal Audit Standards with focus on small internal audit units (1-2 internal auditors)
- Lack of proper communication between internal auditors and board/management
- Conducting performance-based audits in public sector
- Advisory services
- Conducting external assessment of IA units in public sector
- Role of internal audit function in better implementation of managerial accountability in public sector
- Implementation of conclusions from Consolidated report for Governance and Internal Control in Public Sector



Questions?

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