

32 Annex - Financial Control

264. INSTRUCTIONS ON STATE TREASURY OPERATIONS

Pursuant to Article 2, in conjunction with Article 54 of the Law on Budget (Official Gazette of the Republic of Montenegro 40/01, 44/01, 71/05 and Official Gazette of Montenegro 12/07), the Ministry of Finance hereby issues the

INSTRUCTIONS ON STATE TREASURY OPERATIONS

Content

1. These Instructions shall regulate more detailed manner of budget execution, financial transaction control, collection of revenues, providing liquidity on the Consolidated Treasury Account, domestic and foreign government debt management as well as the form and contents of forms for the Treasury General Ledger.

Purpose

2. The purpose of the Instructions is to ensure the application of the best practice of financial management in Montenegro (hereinafter referred to as the "State"). If, in the opinion of the Ministry of Finance (hereinafter referred to as the "Ministry"), strict implementation of provisions of these Instructions would, in particular circumstances, not be in the best interests of the State, the Ministry shall have the right to adopt the procedures, in writing, to be followed in those particular circumstances. Additional expert instructions must be forwarded to the State Audit Institution.

Meaning of specific terms

3. Specific terms used in these Instructions shall have the following meanings:

Chief Finance Officer represents the Budget Executor in accordance with Article 3 of the Law on Budget (Official Gazette of the Republic of Montenegro 40/01, 44/01, 71/05 and Official Gazette of Montenegro 12/07 – hereinafter referred to as the "Law") and means:

- (a) a minister, a director or appropriate person appointed in charge of a spending unit and
- (b) a person authorized in writing by a person as referred to in the item a) to act as a budget executor and exercise a function of general approval or sanction of financial activities for a spending unit.

Finance Officer is a person appointed by a law or an authority to be personally and financially responsible for a financial task within the meaning of these Instructions, and in particular:

- a) Approving Officer is a person appointed by the Chief Finance Officer of a spending organization to exercise a financial task of approving a proposal for provisioning of funds and a request to spend State funds or correctness and validity of the collection of State funds;
- b) Certifying Officer is a person who within a spending organization exercises a financial task of certifying the correctness and validity of a proposal for provisioning of funds and a request to spend State funds;
- c) Authorizing Officer is a person appointed by the Minister of Finance to exercise a financial task of authorizing the payment of funds from a government bank account;
- d) Officer for control of requests for payment is a person appointed by the Deputy Minister for Treasury to exercise a financial task to confirm that a proposal for provisioning of funds and a request for payment have been duly certified and approved;
- e) Receiver is a person who within a spending unit exercises a financial task of taking over revenues from revenue deposit accounts, their processing to users along with the Receiver's Statement, as well as lodging of cash to corresponding revenue deposit accounts and

f) Cashier is a person who within a spending organization exercises a financial task related to cash transactions.

Receiver Statement is a document containing the structure of lodged public revenues by economic classification based on which the collected public revenues are recorded in the accounting of their users.

Financial task is an activity, task or procedure relating to:

- a) the commitment or spending of State funds;
- b) the management and control of State funds;
- c) the control of regularity of certifying and approving requests for payment and proposals for provisioning of funds;
- d) transfer of State funds to users and
- e) cash transactions.

Spending organizations are spending units or units under their jurisdiction as defined by the Law.

Warrants are written authorizations, issued by the Ministry, allowing spending units to spend State funds up to an approved limit.

Journal Transfer is a transaction to effect corrections and adjustments to financial records in the Treasury General Ledger, submitted along with the request with explanations of reasons for correction signed by a chief finance officer or a person authorized by him/her.

Appointments of Finance Officers

4. The Minister, director or person in charge of a spending unit is at the same time appointed ex officio the Chief Finance Officer of that spending unit or organization.

5. The Minister has the right to authorize one or more government officials in the capacity of an authorizing officer in the State Treasury (hereinafter referred to as the "Treasury") to undertake financial tasks that result in:

- a) spending of funds from the Treasury Consolidated Account and the withdrawal of State funds from a government bank account, in compliance with Article 12 of the Law; and
- b) handling State funds, investing idle funds from government bank accounts and increasing funds in the Treasury Consolidated Account in compliance with Article 15 of the Law.

6. A Chief Finance Officer has the right to appoint one or more Government Officials to perform duties and responsibilities of an Approving Officer for a spending unit, or organization. The appointment shall be advised in writing to the Treasury.

7. A Chief Finance Officer has the right to appoint one or more Government Officials to perform duties and responsibilities of a Certifying Officer for a spending unit, or organization. The appointment shall be advised in writing to the Treasury.

8. A Chief Finance Officer has the right to appoint one or more Government Officials to perform the duties and responsibilities of a cashier for a spending unit, or organization. The appointment shall be advised in writing to the Treasury

9. A Government Officer appointed as an Approving Officer within a spending organization for the purposes of these Instructions cannot also perform the duties of a Certifying Officer or Authorizing Officer.

10. Specimen signatures of each Government Official appointed as a Finance Officer must be lodged with the Treasury. The Deputy Minister for Treasury shall be responsible for maintaining a register of authorized and appointed Finance Officers.

Responsibilities of Finance Officers

11. Finance Officers shall be personally responsible for performance of their financial tasks and may be held financially responsible for any irregularities that arise during the performance of those financial tasks. Where a Finance Officer shall have delegated any duty to any staff member, he cannot be relieved of that personal and financial responsibility. A Finance Officer may not perform a financial task from which he will receive a direct financial benefit.

12. Finance Officers with a responsibility for the handling or custody of State funds, either in the form of cash or other negotiable instruments, have a personal responsibility to ensure that an accurate and complete Handing Over Certificate is signed by both the "Handing-Over Officer" and the "Taking-Over Officer".

13. No Finance Officer shall accept cash or issue a receipt, or accept or issue negotiable instruments without prior verification that the Handing Over Certificate has been duly completed and signed by the two officers referred to in item 12 of these Instructions.

Delegation of Powers

14. A Chief Finance Officer may delegate to another government officer, by signed instrument, any of the Chief Finance Officer's powers or functions under these Instructions. In exercising powers and functions under a delegation, the officer must comply with any instructions of the Chief Finance Officer. The delegation of such powers does not remove the responsibility of the Chief Finance Officer under these Instructions.

I Budget Execution

Funds Warrants to Spending Units

15. funds shall be issued from the Treasury Consolidated Account in the manner prescribed by Article 11 paragraph 3 of the Law.

16. In accordance with Article 31 of the Law, the Ministry will issue warrants to spending units approving funds up to the limit determined by the annual Law on Budget of Montenegro (hereinafter referred to as the "State Budget").

17. Warrants shall establish the right to spending funds for a specific period of time, signed by the Minister of Finance or his/her delegate, and shall be recorded in the Treasury General Ledger.

18. Issuing Funds Warrants is used to control the release of public funds, as follows:

a) **Allocation Warrant:** by this warrant, the Ministry authorizes Chief Finance Officers to spend up to the amount detailed in the warrant. The warrants will be issued on a monthly or quarterly basis, depending on funds currently available for spending.

b) **Virement Warrant:** under Article 35 paragraph 3 of the Law the Ministry has the right to, if needed, allow a Chief Finance Officer to reallocate funds by programs and specific expenditures. The Virement Warrant shall be used by the Ministry, with prior approval of the Government of Montenegro (hereinafter referred to as the "Government") to reallocate funds between spending units and capital projects (Article 35 paragraphs 1 and 2 and Article 35a and 35b of the Law).

c) **Contingency Warrant:** in extraordinary circumstances, the Ministry has the right, with prior approval by the Government, to increase the amount available to a Chief Finance Officer (Article 8 of the Law).

d) **Development Project Allocation Warrant:** the Ministry will approve funds to Chief Finance Officers responsible for implementation of a donor funded project.

Funds Allocation to Finance Officers

19. Upon receipt of a funds warrant, a Chief Finance Officer, pursuant to Article 31 paragraph 2 of the Law, may issue Sub-Allocation Warrants to Finance Officers within his/her spending unit, including any spending organizational units under his/her jurisdiction.

20. By the Sub-Allocation Warrant the Chief Finance Officer authorizes a Finance Officer to spend funds approved by the State Budget for that spending unit.

21. A Sub-Allocation Warrant may limit the authority to spend funds to meet the costs of a sub-organization unit by:

- a) the exclusion any budget item over which the Chief Finance Officer wishes to maintain special control and
- b) any restriction contained in the Warrant issued to the Chief Finance Officer by the Ministry, in compliance with item 18 of these Instructions.

22. Sub-Allocation Warrants shall contain specific instructions to Finance Officers binding them to:

- a) make payments up to the limit provided for by the Warrant;
- b) make reference to the Sub-Allocation Warrant on all subsequent Payment Requests; and
- c) pay particular attention to any other instruction issued by the Chief Finance Officer.

Cessation of Authority of Funds Warrants

23. All Funds Warrants, including Sub-Allocation Warrants shall cease on the last day of the fiscal year to which they relate or upon such earlier date notified to Chief Finance Officers by the Ministry in writing.

24. No Finance Officer has the right to deliberately incur or commit any unjustifiable expenditure under the authority of any funds warrant issued to him/her in anticipation of the cessation of the authority in such warrant.

II FINANCIAL CONTROL

Internal Control within Spending Organizations

25. In compliance with authorizations provided for by the Article 44 of the Law, Chief Finance Officer shall be responsible for the internal control of financial transactions within spending organization under his/her jurisdiction. In addition Chief Finance Officer shall organize the work of an administrative unit which finance officers are responsible for ensuring the execution of financial tasks.

Spending State funds

26. No funds shall be spent from the Treasury Consolidated Account unless:

- a) an Approving Officer has approved a proposal to spend State funds or approved a payment request of State funds from available sources,
- b) a Certifying Officer has certified that a proposal to spend State funds or a payment request is correct and valid, and
- c) an Officer for control of payment requests has confirmed that the request has been certified and approved by authorized persons,
- d) an Authorizing Officer has authorized the payment of funds from a government bank account.

Approval of Spending Proposals

27. A Finance Officer must not undertake an activity in respect of a request to spend State funds unless it has been previously approved by a Chief Finance Officer.

28. A Chief Finance Officer shall approve the request to spend State funds after having determined that it:

- a) is in accordance with the policies of the Government and
- b) will make efficient and effective use of the State funds.

Approval of Future Spending Proposals

29. If any of the expenditure specified by a spending proposal is expenditure for which an appropriation of funds is not authorized by the the Annual State Budget, a Chief Finance Officer cannot approve the spending in respect of such proposal.

Method of Approval of Spending Proposals

30. Approval of a proposal of future spending for which there is no appropriation may only be approved by the issue of a Contingency Warrant, in compliance with item 18 of these Instructions.

Entering into Contracts

31. A person must not enter into a contract, agreement or arrangement under which State funds is, or may become, payable unless a proposal to spend State funds for the mentioned purposes has been approved in compliance with item 27 of these Instructions.

Payments resulting from Loan Guarantees

32. A Chief Finance Officer or an authorized person must make payments in respect of guarantees issued for a loan on behalf of the Government unless:

- a) a proposal to spend State funds in respect of guarantees issued for a loan has been approved in compliance with item 28 of these Instructions and
- b) the proposal to spend State funds in respect of guarantees issued for a loan has been previously authorized by the Minister of Finance, or another person authorized by the Minister of Finance for that purpose.

Spending of State funds in respect of Commitments

33. Commitment is represented by a form called Commitment Authority Form, with the contents prescribed by the Ministry. Based on the Commitment Authority Form a portion of a spending organization's available budget funds is reserved to meet obligations for the payment of State funds.

A Commitment Authority form must be certified and approved by the spending organization's appointed Finance Officers.

34. A Commitment Authority form must be completed in duplicate, the original shall be passed to the State Treasury and the duplicate copy retained by the spending organization.

35. Before certifying that a Commitment Authority form is correct a Certifying Officer must be satisfied that:

- a) there is written approval for commitment by the Chief Finance Officer;
- b) there is sufficient documentation supporting the commitment; and
- c) there are funds allocated by the Budget for such type of expenditure.

- 36.** Approval Officer approves a Commitment Authority form after checking that:
- (a) the spending proposal was approved by the *Chief Finance Officer*;
 - (b) the commitment authority form has been duly certified by the Certifying Officer;
 - (c) the proposal represents the best value for funds, or is in accordance with special conditions set by the Government;
 - (d) there are sufficient allocated funds available in the State Budget to meet the proposed expenditure, after taking into account other expenditures to be met from the appropriation item.
- 37.** Properly completed, certified and approved Commitment Authority forms must be passed to the Treasury for recording in the Treasury General Ledger.

Annual Review of Outstanding Commitments

38. Spending organizations shall annually review all outstanding commitments to determine those commitments against which payments will be made in the following fiscal year. Commitments that are to be carried over into a following year must be advised to the Treasury no later than 31 March of the following year.

Exceptionally, if needed, the review of outstanding commitment shall be advised sooner at request by the Deputy Minister for Treasury.

III EXPENDITURE CONTROL

Accounting and Internal Control

39. In compliance with authorization referred to in the Article 44 of the Law, Chief Finance Officer is responsible for the accounting and internal control of expenditure transactions within his/her jurisdiction. Each step of expenditure control is documented by the use of a properly completed form called Payment Request, issued by the Ministry. This form must be used by spending organizations for all expenditure payments made from the Treasury Consolidated Account, unless otherwise provided for by the Ministry.

40. The Payment Request form shall be completed in duplicate. The original is passed to the Treasury for control and payment. The copy is retained at the spending organization as a written evidence used for audit purposes, and must be attached to supporting documentation.

Receiving Report on Receipt of Goods or Services

41. Following receipt of goods or services a Finance Officer must verify or obtain verification in writing that the service has been performed or goods or equipment delivered in accordance with an approved Purchase Order, signed Contract, binding agreement or administrative order.

42. Any deviation from the number of items or conditions of the items listed on the Purchase Order, or Contract, should be noted in writing by the Finance Officer. The information provided should contain enough data about the deviation to allow the vendor or supplier invoice to be adjusted for the value of usable goods received or portion of service provided.

Certifying Payments by Spending Organizations

- 43.** A Certifying Officer shall certify a Payment Request after determining that:
- (a) the physical or legal person has provided the service or supplied the goods;
 - (b) the physical or legal person has lodged an invoice or other supporting documentation which spells out the nature of the claim on the State Budget in sufficient detail to avoid the

- possibility of a double payment, or there is sufficient evidence to ensure that the Payment Request has not been previously paid;
- (c) the supporting documentation clearly identifies the name of the physical or legal person to be paid, to ensure that payment is only made to the person or organization rendering the service;
 - (d) all amounts and numerical calculations are correct;
 - (e) the correct accounting code is nominated to record the expenditure according to economic classification used for recording the payment made as a Budget expenditure in the Treasury General Ledger;
 - (f) there is an approved Commitment Authority form referred to in sub-item c) of this item.

Approval of Payments by Spending Organizations

44. Before approving a Payment Request an Approving Officer must ensure that:

- a) the expenditure has been approved and the request for payment duly certified; and
- b) sufficient budget funds are available against the nominated budget classification item for the relevant expenditure for the payment to be covered.

Authorization of Payment Requests by the Treasury

45. Before confirming the validity of a payment request the Officer for control of payment requests must ensure that the request for payment has been duly completed, or certified and approved by the appointed Finance Officers from the spending organization.

46. The Treasury Authorizing Officer, after the Officer for control of payment requests has found the payment request to be valid, will determine that there is sufficient cash in the government bank account to make the payment.

47. An Authorizing Officer has the right to request that a spending organization provide supporting documentation for a request for payment where he considers that the control process in the spending organization has not been conducted according to these Instructions.

48. An Authorizing Officer has the right to reject or return unprocessed to a spending organization a request for payment that is factually or numerically incorrect.

Journal Transfers

49. A Journal Transfer is undertaken to correct and change the balances on accounting records within the Treasury General Ledger, lodged along with the request with explanation of reasons for the adjustment signed by the Chief Finance Officer or person authorized by him. All Journal Transfers must be certified, approved and authorized by appointed Finance Officers.

50. Chief Finance Officers, using the Journal Transfer form may request changes including adjustments correcting existing expenditure or revenue records.

The changes referred to in paragraph 1 of this item must result in a zero affect on the overall balance of the Treasury Consolidated Account.

Received Invoice Register

51. Spending organizations must keep a register of received invoices. The register of received invoices should clearly show details of all invoices for delivered goods, procured equipment and rendered services, as well as disputed or cancelled invoices.

Due Payments

52. All invoices received by spending organizations for supplied goods and equipment and rendered services must be paid by the due date for the purpose of better management and effective use of State funds and maintaining the reputation as a reliable payer.

53. The standard due date is 30 calendar days from the receipt of an invoice. Exceptionally, due dates later than 30 days shall be permitted only where stipulated by the terms and conditions of a contract or by written approval by the responsible Chief Finance Officer or instruction of the Minister of Finance.

IV COLLECTION OF PUBLIC REVENUE

Responsibilities of Chief Finance Officers for Transfer of Revenue

54. All public revenues are lodged into revenue deposit accounts which are prescribed by the Ministry in accordance with the regulation on tax administration.

55. The Chief Finance Officer is responsible for transfer of revenues and their distribution by type in accordance with budget classification in a spending unit under his/her authority.

56. The Chief Finance Officer shall keep, or cause to have kept, accurate and updated records of all revenue for which he is responsible.

Receiver's Statement

57. Spending organization daily prepares Receiver's Statements for revenues which collection is under its jurisdiction.

58. The Receiver's Statement shall include the following details:

- (a) Name of the spending organization;
- (b) Organizational code of the spending unit;
- (c) Date;
- (d) Unique reference number;
- (e) Eco code of the revenue;
- (f) Municipality code for shared revenues;
- (g) Amount of gross revenues by revenue type;
- (h) Amount of refund by revenue type;
- (i) Amount of accounting adjustments by revenue type;
- (j) Amount of net revenue by revenue type;
- (k) Net amount of total collected revenue.

59. The Spending Organization shall prepare separate Receiver's Statements for each settlement account every day, even in case there are no lodgments into such account.

60. The Spending Organization includes in the Receiver's Statement only such revenues that have been reconciled with primary accounting records.

Balancing of Receiver's Statement

61. A spending organization shall ensure for the Receiver's Statement under its jurisdiction to:

- a) have a reference number of that organization filled in the statement;
- b) have the sum of all accounting transactions equal to zero;

- c) have the net amount of all collected types of revenues on the Receiver's Statement of the organization to equal the amount to be entered in the payment order for transfer of payments lodged into the settlement account to the Central Account of the State Treasury and
- d) have the amount from the Receiver's Statement of a spending organization to equal the amount from one settlement account.

Payment Order Preparation

62. After a Receiver's Statement has been prepared the Receiver shall prepare the payment order for transfer of the total amount of net revenues recorded in the Receiver's Statement from the settlement account to the State Treasury Central Account. A separate payment order is required for every Receiver's Statement.

Checking of Receiver's Statements and supporting documents

63. Immediately after preparing the Receiver's Statement, the Receiver shall present his/her Receiver's Statement, duly balanced, together with bank statement on revenues lodged in the settlement account of the spending organization to the Approving Officer.

64. The Approving Officer will check the accuracy of the Receiver's Statement of the Organization and will sign and verify that:

- a) a reference number of that organization has been filled in the statement;
- b) the sum of all accounting transactions equals to zero;
- c) the net amount of all collected types of revenues on the Receiver's Statement of the organization equals the amount to be entered in the payment order for transfer of payments lodged into the settlement account to the Central Account of the State Treasury.

65. Authorizing Officer is responsible to check whether a separate Receiver's Statement is produced for every settlement account that a spending organization maintains. The Authorizing Officer is also responsible to ensure that the amounts from the Receiver's Statement are related to lodgments made into one settlement account.

66. Authorizing Officer shall check the amount of non-identified funds in the settlement accounts (deposits) under the jurisdiction of that organization, and undertake measures for their identification within seven days. If he is unable to perform the identification he shall inform the Chief Finance Officer of the Spending Organization in writing.

Submission of Receiver's Statement and Processing of Payment Order

67. Receiver will submit the Receiver's Statement of his/her Spending Organization to a Finance Officer in the Treasury before 12 a.m. every business day.

68. An Officer for transfer of revenues shall simultaneously with submission of the Receiver's Statement, ensure that corresponding payment order is also issued to transfer funds from the settlement account of a spending organization to the Central Account of the State Treasury.

69. A Finance Officer in the Treasury shall distribute the lodged revenues into the State Treasury Central Account in accordance with special regulations to establish where such revenues belong.

70. A Finance Officer referred to in the clause 69 of these Instructions shall immediately transfer the distributed revenues from the State Treasury Central Account to the accounts of revenue users and submit them a Report on the Structure of Lodged Revenues.

71. A Finance Officer in the Treasury shall contact a Receiver in a spending organization if he fails to submit the Receiver's Statement within the prescribed period. If a Receiver is unable to provide

the Receiver's Statement, the Deputy Minister for Treasury shall contact the Chief Finance Officer in a spending organization if he/she fails to comply with procedures.

72. A Finance Officer in the Treasury shall keep records of Receiver's Statements not submitted within the prescribed period including: name of a spending organization, name of the accountable Receiver, date, time and amount of lodgments reported in the Receiver's Statement. These records are available to the Deputy Minister for Treasury for consideration and undertaking required actions.

Irregularities

73. A receiving State Treasury Finance Officer shall immediately report to the Deputy Minister for Treasury any suspected irregularities in the presentation of collected revenue, the Receiver's Statement or any other document submitted by the Receiver. The Deputy Minister for Treasury shall, if the irregularity is of a material nature, report the matter in writing immediately to the Minister of Finance, with a copy to the Internal Auditor and the Chief Finance Officer concerned.

V CASH SECURITY

Definition of cash

74. Within the meaning of these Instructions, cash shall be defined as all currency, postage stamps, money orders, postal orders and other negotiable instruments.

Misuse of cash

75. Finance Officer must not use such cash for any personal purpose or lend or borrow it.

Responsibility for cash holdings

76. For withdrawal of cash from the State Treasury Main Account, the Deputy Minister for the State Treasury shall appoint two or more persons and inform the Central Bank thereof and send specimen signatures of the appointed persons. The appointed persons withdraw cash from the Treasury Main Account by a cash payment request, which they hand over by the Cash Payment Order to cashiers of spending organizations.

77. A cashier is responsible for cash holdings in a spending organization, who is personally responsible for its keeping and is the only one to have access to cash holdings.

Provision of safe custody facilities

78. It is the responsibility of Chief Finance Officers to ensure that adequate Safe Custody Facilities are provided to those officers who shall be responsible for safeguarding any cash.

79. It shall further be the responsibility of Chief Finance Officers to ensure that all due precautions are taken to prevent the loss or theft or misuse of such cash for officers under his/her authority.

Safe guarding of keys

80. A Finance Officer in possession of a key to a safe shall take all possible precautions against its loss or theft. Under no circumstances, except officially handing over to a replacement officer, shall the Finance Officer hand the key to any other person.

81. If a Finance Officer loses a key to a safe used for the safe custody of cash, he shall report the matter immediately to the Chief Finance Officer.

Handing over certificates

82. The handing over of duty takes place based on the decision by the Chief Finance Officer. When an official handing over takes place between two Officers who are responsible for the safe keeping of cash or keys, the handing over certificate shall be signed by both officers and shall contain full details of such cash and keys being subject to hand over.

83. Where an official handing over should have taken place but cannot due to contingent circumstances, the Chief Finance Officer shall arrange a "Cash Count" in front of witnesses and establish any surplus or shortfall.

Safe guarding of cash in transit

84. Cash in transit shall always be in the charge of a responsible Finance Officer.

85. When cash is in transit the Finance Officer shall take all due precautions for the prevention of loss or theft of the cash. In case the amount of cash is exceeding € 20,000.00, the transit of cash will be performed by no less than two officers.

VI Irregularities in regard to State funds

Report on Irregularities concerning State funds

86. It is the duty of all Finance Officers to report to the Chief Finance Officer, without delay, any incident of loss, shortage, theft or misuse of any cash holding under his/her control unless the shortage is less than EUR 50 caused by negligence and has been made good.

87. It is the duty of every finance officer to make good any loss, shortage, theft or misuse of any State funds referred to in clause 86 of this Direction within five days.

Action upon receipt of report

88. Upon receipt of any report of any potential irregularities, the Chief Finance Officer shall undertake corresponding actions for the purpose of investigating the reported misuse of State funds, as follows:

- a) counts of all cash, or insight into payment requests; and
- b) checking of all entries from the cash holding ledger, payment request and Treasury General Ledger and their comparison with accounting documentation.

89. Where the Chief Finance Officer is unable to undertake the investigation of the misuse, he shall immediately report to the competent state authorities thereof.

VII Banking

Government Bank Accounts

90. All government bank accounts shall be opened as provided for by the Article 12 of the Law.

91. All State funds shall be deposited to government accounts and all payments of State funds shall be paid out of such government bank accounts.

Opening of Government Bank Accounts

92. A government bank account shall not be opened without the written approval of the Ministry.

93. In accordance with Article 13 of the Law, the Ministry shall enter into an agreement with the Central Bank or a bank that is a resident of the State for the supply of banking services on behalf of the State.

94. The Ministry will issue the order for opening of the State Treasury Central Account to which the State funds is transferred from revenue deposit accounts and from which the State funds is distributed in accordance with special regulations.

95. The Ministry will issue the order for opening of a Government bank account entitled "State Treasury Main Account". This bank account will be used for the deposit and payment of State funds for all spending organizations against the funds planned by the annual budget. The Ministry issues orders to open additional Government bank accounts if it considers that such accounts are necessary for the efficient and effective conduct of programs and services. The State Treasury Main Account and additional bank accounts opened by the Ministry represent the Treasury Consolidated Account.

96. The Minister of Finance and persons authorized by the Minister of Finance shall manage the funds from the Treasury Consolidated Account.

97. Where necessary the Ministry shall advise Chief Finance Officers by an official letter or notification of changes to general banking policy and any special arrangements or agreements for the supply of Government banking services.

98. If a Chief Finance Officer has a special need for a government bank account he/she shall forward a request in writing to the Ministry. The request shall include the following:

- a) the purpose and type of the account;
- b) the name of the nominated bank or branch where the account is to be held;
- c) the name of the Finance Officer who will be responsible for the operation of the account, together with the names of the persons approving payments or withdrawals of funds from the account and specimen signatures and
- d) any other relevant details.

99. The Ministry shall approve or reject a request for the opening of a government bank account in writing. If approved, the Ministry shall provide instructions on the opening of the government banking account and instructions on the operating of the account:

- a) the name of the account must include the word "Government";
- b) confirmation that a minimum of two signatories will be required to manage funds in the government bank account;
- c) the arrangements for the regular transfer of funds to the Treasury's Government bank account if the new account is to be used for the purposes of collecting State funds.

100. New government bank accounts will not be opened for any needs of a spending organization where suitable banking facilities already exist which are considered by the Ministry sufficient for the purposes of that spending organization.

Maintaining Government Bank Accounts

101. The Finance Officer responsible for the operation of a government bank account must obtain bank account statements on daily, weekly and monthly basis.

102. On the receipt of a bank statement the Finance Officer shall prepare a bank reconciliation statement for each government bank account. The reconciliation shall compare the bank account to the Treasury accounting records, and identify and list individual transactional discrepancies. Identified discrepancies shall be resolved by procedures approved by the Deputy Minister for Treasury.

Certificate of Balance of a Government Bank Account

103. An officer responsible for the operation of a government bank account shall obtain a certificate of balances from the bank:

- a) at the end of each fiscal year; and
- b) when requested to do so by the Deputy Minister for Treasury on a specific day during the fiscal year.

Closing of Government Bank Accounts

104. The Ministry will determine the time and manner of review of use of the existing Government bank accounts and arrange for the closure of accounts that are considered unnecessary, invalid or inactive.

105. Where a Chief Finance Officer no longer has need for a Government Bank Account, he shall forward a written request to the Ministry to close the account.

Liquidity Management

106. The Ministry of Finance shall ensure the efficient liquidity management.

107. Liquidity management shall include, but not be limited to:

- a) negotiation on interest rates for bank account balances and investments of idle State funds;
- b) minimizing balances in non-interest bearing bank accounts; and
- c) ensuring the availability of cash in the Government Bank Account when required to meet expenditure.

VIII Salaries

108. Within the meaning of these Instructions, the term "salaries" shall include gross salaries, allowances and other payments to employees of the State.

Nominal rolls

109. All Chief Finance Officers shall submit to the Ministry signed and certified Nominal Rolls of all employees in their spending organizations, no later than 20th in a month for which the calculation is done. The form of Nominal Roll shall be adopted by the Ministry.

The Nominal Roll shall contain in particular:

- (a) Spending Organization;
- (b) Name;
- (c) Staff identification code
- (d) Unique ID number of employee;
- (e) Position or Title;
- (f) Educational qualification;
- (g) Coefficient for calculation of the fixed part of the salary;
- (h) Years of service;
- (i) Allowances (based on special work conditions, overtime, night shifts, work on state and religious holidays and other);
- (j) variable part of the salary, on-call hours and the like;
- (k) work hours (regular work and temporary prevention from work) and
- (l) notes.

110. The Ministry shall provide the preparation of monthly salary payrolls for employees in spending units. The payroll format must include: a detailed pay slip for each employee, list of employees' pays for each spending organization and summary of calculated salaries for each spending organization.

The pay slip of employees must give the details of: the coefficient for calculation of the fixed part of the salary, increment in respect of years of service, amount of gross pay of employees, amount of tax on the salary of employees, amount of contributions for mandatory social insurance from and on gross salaries, amount of surtax on personal income tax, net salary, withholdings from the salary, amount for payment and any other detail that may be considered necessary.

A list of calculated employees' pays for a spending organization contains the following data on an employee: coefficient for calculation of the fixed part of the salary, increment in respect of years of service, municipality code, bank code, type of payment, employee's bank account number, employee's gross salary, employee's net salary, withholdings and amount for payment.

The summary of calculated salaries for a spending organization contains the summary data based on which spending units submit requests for payment to the Treasury for payment of net salaries, tax on salaries, contributions for mandatory social insurance and surtax on salaries of employees.

111. As soon as possible after processing by the Treasury, Chief Finance Officer shall receive a copy of the payroll together with the individual pay slips and shall ensure that individual pay slips are handed to every employee.

Payment of Salaries

112. The payment of salaries is made from the State Treasury Main Account.

113. The Treasury shall make payments of salaries by lodging them into a bank account of an employee once a month.

114. An employee shall not be paid the salary or any other income if it has been previously established that he/she has outstanding obligations in respect of court decisions.

XII Reporting and Audit

Financial reporting

115. The Deputy Minister for Treasury shall decide on what reports are needed from the Treasury General Ledger and from spending organizations.

116. A report on Receipts and Payments of the State Treasury Main Bank Account shall be forwarded to the President of the State, Prime Minister and the Minister of Finance on daily basis.

Periodic Reports of the Ministry

117. Throughout the fiscal year, the Ministry shall provide periodical reports for the Government and the public, including:

- a) monthly reports on budget execution showing monthly expenditure outflows and revenue inflows and
- b) quarterly or half-yearly reports on budget execution showing receipts and expenditures in such period as well as overall progress of the budget execution process.

Closure of the Annual Treasury General Ledger Accounts

118. The Deputy Minister for Treasury shall issue an Instruction no later than 15 November in each fiscal year detailing the requirements for closing the Treasury General Ledger accounts and producing final accounts of spending organizations. The final accounts Instruction will include a timetable for the acceptance of final Treasury General Ledger transactions, annual financial reports and any instructions related to payment, justification and refund of current advances.

119. Following the closure of the Treasury General Ledger accounts, and within the period set by the Deputy Minister for Treasury in compliance with item 118 of these Instructions, Chief Finance Officer shall compare accounting records with the records in the Treasury General Ledger and notify the Treasury of identified discrepancies.

The identified discrepancies shall be removed in accordance with the instructions of the Treasury.

120. Spending units that make payments through sub-accounts or suspense accounts and that, due to technical reasons or time taken by legally established procedures, are not able to transfer funds from such accounts to an end-user by 31 December of the current year, they may transfer such funds no later than the expiry of the deadline for submission of annual financial reports.

121. Spending units shall inform the Ministry on the unspent funds referred to in the item 120 of these Instructions for the purpose of corrections to be inserted in the Treasury General Ledger. Unspent funds are included in deposits and the expenses are canceled in the same amount, and contracted commitments for which the funds were reserved will be settled against the budget positions for the next year.

122. Exceptionally from the item 120 of these Instructions, the funds in the suspense accounts for resolving housing needs of senior grade and lower grade civil servants recorded in the Treasury General Ledger as an expense, are considered as an expenditure due to duration of normative-legal procedure for allocation of such funds to end-users. For funds that have not been spent in the current year to the moment of submission of annual financial reports, the user shall inform the Treasury thereof, which is obliged to produce a special report on unspent funds and inform the Parliament of Montenegro thereof.

123. A Spending Unit or Organization submits a statement on the spent funds upon the expiry of a fiscal year to the moment of expiry of the deadline for submission of annual financial reports, signed by the Chief Finance Officer that such funds have been used for the purposes in accordance with expenditures from the Treasury General Ledger. The statement is made under material, moral and criminal liability.

X Borrowing, Lending and Investments of State funds

Authorization for Borrowing

124. Pursuant to the annual Budget Law, the Government makes decisions on borrowing during a fiscal year. The funds in respect of loans shall be withdrawn in accordance with the schedule contractually established.

Recording of Debt

125. The Minister of Finance shall ensure that both domestic and foreign loans are recorded using a suitable debt management system.

126. Full details of the loan agreement including amortization schedules, interest payments, service fees and other such items shall be entered into the debt management system. The Deputy Minister for Treasury is responsible for keeping records of the State debt.

Monitoring of Debt

127. All payments to or by Government on the servicing of loans shall be recorded in the debt management system throughout the life of the loan.

128. At least each quarter a report on the position of the government debt shall be provided to the Minister of Finance and semi-annually to the Government.

129. Any late or unserviceable repayments must be reported to the Minister of Finance who shall inform the Government thereof. The Minister of Finance shall take appropriate action to ensure that the payment due in respect of debt of the State is made.

Budgeting for Repayment of Government Debt

130. The forecasting facility within the debt management system shall be used to assist in the projection of revenue and expenditure estimates for preparation of the following year's budget.

Restructuring or Cancellation of State Debt

131. The Ministry shall ensure that:

- a) on rescheduling of a loan, amendment of records or data files to include new schedules and loan details will be made; and
- b) on cancellation of a loan, amendment to records or data files will be made to record the termination of the loan in question.

Loan Guarantees

132. A loan guarantee is an agreement where the State gives a written promise to a bank or similar institution which has lent funds to an organization (the borrower), that, in the event of default by the borrower the State will meet any shortfall.

133. A loan guarantee shall not be given without compliance with Article 39 of the Law. The State will demand collateral from the borrower.

134. All payments by the Government to honor defaulted loan guarantees must be paid from the Treasury Consolidated Account against the funds planned for such purposes. In case of payment of debt in respect of guarantees in the name of the borrower, the State shall undertake actions for collection of guarantees.

Investment of State funds

135. Accordingly to Article 15 of the Law, the Minister of Finance may invest State funds in accordance with the guidelines of the Debt Management Strategy.

136. Any expenses of investing State funds should be paid against a budget appropriation for that purpose and any interest received credited against a revenue item for that purpose.

137. The Ministry has the right to reinvest in the same financial institution the matured revenues from investments, prior to maturity of the previous investment depending on the circumstances in accordance with the guidelines of the Debt Management Strategy.

XI Financial Records

Maintenance and Safe Keeping of Financial Records

138. A Chief Finance Officer shall ensure that all records in his/her spending organizations are in constant good order, kept up to date and comply with these Instructions.

139. Finance Officers shall use accounting forms as prescribed by these Instructions, unless otherwise decided by the Ministry.

140. The Ministry shall supply the accounting forms for spending units that are not connected to the IT system of the Treasury.

141. All entries in accounting forms shall be made correctly and legibly. All incorrect entries shall be ruled through neatly, the correct entry inserted neatly above and the correction initialed by the responsible officer and certified. Erasure, writing over the figures or the use of correcting fluid is not permitted.

142. Chief Finance Officer shall ensure that financial reports and accounting documents are kept for the period prescribed by these Instructions

Retention periods for specific types of financial records are:

- a) Financial records or accounting documents of a spending organization on which the spending of State funds is based, including accounting forms issued by the Ministry for the purpose of conducting financial tasks, shall be kept for a minimum of ten years;
- b) Accounting records used for recordings in the Treasury General Ledger (Receiver's Statements, payment requests and the like) shall be kept for a minimum of five years;
- c) Final accounts of the Budget of Montenegro and final accounts of spending units shall be kept for a minimum of ten years;
- d) Data from the Treasury General Ledger in electronic form, from the financial database, shall be kept indefinitely;
- e) documentation related to state debt shall be kept indefinitely; and
- f) payrolls shall be kept indefinitely.

143. The Ministry shall ensure security and inaccessibility of data kept in the Treasury information system, as well as their safety when used.

144. The Ministry shall ensure the maintenance of the system of duplicating data kept in the Treasury information system, in a way that any data, if necessary, may be restored. Such back up data are kept in locked and fire resistant safe or case, if possible on the location separated from the main computer centre.

145. The Chief Finance Officer shall facilitate the safety and inaccessibility of data, kept on computers, servers, other electronic forms in a spending unit or which are accessible through the computer network.

146. The disposal or destruction of financial records and accounting documents may not take place without the written permission of the Chief Finance Officer.

147. Register shall be maintained of all financial records and documents disposed of or destroyed. The register shall include:

- a) date of disposal or destruction of financial records and documents;
- b) description of financial records and documents being disposed of or destroyed;
- c) method of disposal or destruction;
- d) reference details of the authorities required for disposal or destroying;
- e) names of Officers delegated to conduct the disposal or destruction of financial records; and
- f) any other relevant information.

XII Security

Office accommodation and equipment

148. Each Chief Finance Officer shall enable security of stocks, storages, furniture, equipment, cash, and other valuable items under his/her jurisdiction.

149. Each Chief Finance Officer shall ensure that proper records are kept of all assets (stock items, movable and immovable property).

XIII ADVANCES OF STATE FUNDS

Types of Advances

150. A spending unit may be given a specific amount of money in advance from State funds in order to conduct financial tasks.

151. There shall be two types of advances:

- a) **Standing Advance**, which is an advance used to meet on-going financial requirements that cannot be effectively conducted through the normal Treasury payments system. A Standing Advance is replenished from time to time, and
- b) **Special Advance**, which is advanced for a specific purpose when funds provided by a standing advance are insufficient to meet financial requirements.

Application for Advance

152. An application for a Standing Advance shall be made in writing to the Ministry by the Chief Finance Officer. The application must clearly state the purpose and manner of operation of the proposed Standing Advance. The Ministry establishes the amount of the Standing Advance based on the application.

153. Unless otherwise prescribed for by the Minister of Finance, an application for a Special Advance must be made to the Deputy Minister for Treasury. The application shall be made on a form prescribed by the Ministry and shall be signed by the officer to whom the advance will be issued, counter-signed by the Chief Finance Officer of the spending unit.

154. No application for a Special Advance shall be granted unless the applicant has signed the section of the form permitting deduction to be made from their salary in the event on non-repayment. If the advance is not repaid within a reasonable period, the amount outstanding will be deducted from salary of the officer over a period determined by the Chief Finance Officer. If it is not possible to recover the amount from salary over a reasonable period of time, the Chief Finance Officer will commence a corresponding legal action against the officer.

155. An advance shall not be authorized where the officer concerned has a previous outstanding advance not repaid.

156. Applications for Advances, as a rule, shall be submitted seven days before the day defined for withdrawal of the advance.

Transfer of Advances

157. Where an officer holding a Special Advance has not used or is no longer in a position to use it, the Advance must be repaid at once. Unused funds of a Special Advance may be transferred to another officer only with written approval of the Chief Finance Officer.

Treasury Register of Advances

158. A Finance Officer in the Treasury will maintain a suitable Register in which shall be recorded full details of all Advances issued. The Register shall be checked regularly to ensure that all Advances are repaid on or before the due dates.

Spending Organization Register of Advances

159. The Finance Officers responsible for Standing Advances shall maintain a Register of received advances. In the spending organization register recorded shall be the amount of the Standing Advance, purpose of payments made from these funds and replenishments of the advance. The spending organization Advance Register data will be balanced with the enclosed documentation on use of the Standing Advance, whenever the Advance is replenished or repaid.

Expenditure receipts, invoices and vouchers supporting advances

160. An officer issued with a special advance shall obtain receipts, invoices or similar vouchers to support all expenditure from the Advance funds, wherever possible.

161. All supporting documentation shall be presented to the responsible Chief Finance Officer when an Advance is replenished or retired.

Annual Retirement of Standing Advances

162. Unexpended funds in respect of an Advance shall be returned to the Main Treasury Account no later than the last day of a fiscal year.

163. It is the responsibility of the officer holding the Standing Advance to apply for any new Standing Advance he requires for the new fiscal year, no later than the end of the current year for the following fiscal year.

XIV Donor Funded Programs

Receipt of Donor Funds

164. All funds received from donors in respect of Donor Funded Programs or Projects shall be paid into the main Treasury account or such other government bank account as may be designated by the Ministry for such purpose.

165. The Ministry shall ensure that separate records are maintained in the Treasury General Ledger and other records as considered necessary to register accurately the receipt of all aid donor funds and in such a manner as to identify each sum received from donors against a particular program or project, as well as an analysis, by donor country, of all donor aid funds received.

166. The Deputy Minister for Treasury shall record programs or projects as separate items in the Treasury General Ledger.

167. The Deputy Minister for Treasury shall issue quarterly statements on use of donor funds for programs or projects, which include the following:

- a) total aid donor funds received;
- b) total expenditure in respect of each program or project incurred to date; and
- c) balance of donor aid funds not yet expended.

Completion of Donor Funded Project

168. When a donor funded program or project has been completed, the Chief Finance Officer shall check to ensure that there are no outstanding commitments for which payment has not been made and inform the Ministry for the purpose of record keeping.

European Union Pre-Accession Assistance (IPA)

169. The Ministry of Finance – National Fund (hereinafter referred to as the “National Fund”) shall send to a bank the application for opening of a special account of the Ministry of Finance – the National Fund for disbursement of funds received within the pre-accession assistance of the European Union for every financial agreement envisaging decentralized management of such funds.

170. The National Fund shall inform the Section for debt management, indebtedness analysis, cash management and international relations and the Section for accounting services, budget execution and payroll on each anticipated inflow of IPA funds into the account referred to in item 169 of these Instructions.

171. The allocation of funds for development projects financed from IPA funds which are also planned in the budget (financial plan) of a spending unit shall be conducted by the Budget Department by a warrant for allocation of funds for a development project, at proposal of a spending unit if the following conditions have been met:

- a) the agreement on financing within IPA program has been signed and
- b) the National Fund has approved the issue of the warrant

172. A program financed from IPA funds shall be marked with »EU donations«, and within which the projects are assigned special codes related only to projects financed from IPA funds.

173. If a financial agreement requires co-financing, the program within which the funds are planned for co-financing IPA program from national funds, shall have in the part of the source of funding the mark “own share”. Re-allocation of funds from such positions is not allowed.

174. Funds for payment:

- a) of unacceptable costs from the aspect of EU rules, but required for implementation of IPA programs, must be separately planned and paid from national funds and
- b) commission to a bank for transfer of funds to the account of the National Fund (commission for inflow) and commissions to a bank for transfer of funds to supplier abroad (commissions for outflow), must be planned separately with the Ministry and paid from the national funds. The payment shall be made based on the invoice based on the balance with the bank.

175. A spending unit shall use terms and conditions for payment determined by the donor on entering into an agreement financed from IPA funds.

176. A spending unit shall, immediately after the receipt of documentation, and no later than 25 days prior to the timeline for payment, submit a payment request and original supporting documents for the payment of obligations in respect of IPA funds and/or own share funds, to CFCU. The copy of the request for payment and supporting documents shall be kept in the spending unit.

177. The funds for realization of the payment request in the part financed from IPA funds shall be provided by transfer from the account of the National Fund to the Treasury Main Account and on the same day the payment shall be made to the supplier, of the part financed from IPA funds and the part co-financed from national funds.

178. If IPA funds in the account of the National Fund are insufficient for payment to a supplier, the payment may be made from the budget. In this case, the National Fund shall inform the Treasury on timely basis. The National Fund shall return the funds to the budget immediately upon the inflow of IPA funds into the account of the National Fund.

179. Local self-government unit shall undertake the contracted obligation as a part of implementation of the project funded by IPA funds, based on an agreement of co-financing of the project with a spending unit and for which funds are planned in the form of transfer with a spending unit.

The payment of IPA funds may be approved based on documentation that a spending unit submits to CFCU, as follows:

- a) requests of a local self-government unit to use IPA funds;
- b) statement of a local self-government unit which includes the envisaged date of payment and
- c) other supporting documents.

180. In case the provided funds are in the form of a donation, a transfer of funds to a local self-government in respect of co-financing from IPA funds shall be made in the way which depends on the conditions agreed in a specific case:

- a) on the same day when a local self-government unit envisages to make payment to a supplier, or
- b) within 30 days from the day when CFCU submitted the application for IPA funds to the National Fund.

181. For use of IPA funds, a local self-government unit shall provide an evidence of payment to a supplier to CFCU and the spending unit. The evidence on executed payment to a supplier shall be provided within 8 days following the executed payment and must be a condition for the next payment.

182. Payment of obligations within IPA program may be made only if the payment request has been approved in writing by the national authorizing officer (hereinafter referred to as the "NAO"). The National Fund or CFCU may, prior to signing correct the unsuitable amount or incorrect date on the payment request signed by authorized persons of a spending unit. The National Fund or CFCU shall inform in writing the authorized officer of a spending unit of adjustments on the payment request no later than the following day from the day of the correction. Spending unit shall submit a new payment request to the CFCU or the National Fund on the following day.

183. Donor may require the refund of IPA funds:

- a) prior to expiry of the validity period of the agreement on financing if the contract on use of fund has not been concluded or if due to economic execution of IPA funds they have not been used in the envisaged amount and
- b) if IPA funds have been paid incorrectly or for a wrong purpose. The funds for refund of interest and other expenses shall be provided in the budget of a spending unit or a local self-government unit.

The right to spending of a spending unit in case of a) and b) shall be reduced by the amount of funds returned to a donor.

184. Spending unit shall provide the original bank guarantee or other corresponding instrument of security to CFCU within five days upon their receipt by a supplier. A spending unit which keeps a copy bank guarantee or other instrument of security shall ensure that security instruments issued in accordance with the provisions related to decentralized implementation of IPA program and must particularly take into account that validity term of the instrument of security does not expire. NAO or PAO are authorized in the name of a spending unit or a local self-government unit to use corresponding instruments of security.

185. Spending Unit shall provide, when envisaged in the contract, the original certificate of origin of goods to CFCU along with the supporting documentation for payment.

186. CFCU shall keep the following documentation:

- a) original financial documentation supporting the request for payment;
- b) copy request for payment;
- c) original bank guarantees and other corresponding instruments of security and
- d) certificates on origin of goods.

XV TRANSITIONAL AND FINAL PROVISIONS

187. Provisions referred to in items 119, 120, 121, 122 and 123 of these Instructions shall also apply to closure of the Treasury General Ledger annual accounts for 2008.

188. The Instructions on State Treasury (Official Gazette of the Republic of Montenegro 64/01) shall be repealed on the day of entry of these Instructions .

Entry into force

189. These Instructions shall enter into force on the next day following that of its publication in the Official Gazette of Montenegro.

MINISTRY OF FINANCE
MINISTER,
Ph.D. Igor Lukšić

Number: 06 – 3224/1
P o d g o r i c a
18 December 2008