

BUDGET INSPECTIONS - MONTENEGRO AND EXPERIENCES FROM THE REGION: WHAT CAN WE LEARN FROM THEM?



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Contents

- Introduction**..... 4
- Budget inspection (Montenegro)..... 6
 - Legal framework 6
 - About the work of the Budget Inspection..... 7
- Budget inspection (Republic of Serbia)..... 9
 - Legal framework 9
 - About the work of the Budget Inspection..... 10
 - Examples from practice 12
- Budget inspection (Bosnia and Herzegovina)..... 13
 - Legal framework 13
 - About the work of the Budget Inspection..... 14
 - Examples from practice 15
- Budget inspection (Republic of Croatia) 16
 - Legal framework 17
 - About the work of the Budget Inspection..... 17
 - Examples from practice 18
- Financial inspection (Republic of North Macedonia)..... 19
 - Legal framework 19
 - About the work of the financial inspection 20
 - Examples from practice 21
- Budget inspection (Republic of Slovenia) 22
 - Legal framework 22
 - About the work of the Budget Inspection..... 23
 - Examples from practice 24
- Conclusion** 25
- Recommendations** 27



Introduction

Transparent and appropriate public finance management is a key factor for economic and sustainable development of societies. Budget Inspections play a significant role in ensuring the integrity and efficiency of this process. This research paper analyses the role of the Budget Inspection in Montenegro, comparing it to models from the region. The research objective is to understand how Montenegro takes on challenges related to public finance management and what it can learn from practices of other countries in the region. Through analysis of these experiences, the research paper aims to provide relevant recommendations for improving the work of the Budget Inspection in Montenegro, and to contribute to a wider understanding of the role of these institutions in promoting transparent and responsible management of public funds.

The analysis of the work of Budget Inspections contains detailed scrutiny of different aspects of the context in which they operate, including the legal framework and evidence from practice. The research methodology includes a review of relevant legal and regulatory documents, as well as an in-depth study of the actual activities and results of inspection controls on the ground. Monitoring the official websites of the Budget Inspections, the Ministries of Finance, and media reports generated comprehensive insight into the work of Budget Inspections. Reports of the European Commission and international organisations were analysed in order to build an understanding of how the work of the Budget Inspection is evaluated at the international level and how it fits into European standards and practices.

Countries covered by this analysis include Serbia, Bosnia and Herzegovina, Croatia, North Macedonia and Slovenia. Official letters were sent to all inspections with the aim of obtaining the most relevant information about the activities of Budget Inspections in these countries. The letters requested interviews with the person responsible for budget control and oversight. Unfortunately, we received no responses to the request by the time this analysis was concluded. Notwithstanding, we remain open to cooperation in hopes of exchanging valuable information and experiences related to budget oversight.

Analysis of the legal framework and experience of Budget Inspections in the region revealed that Montenegro's performance in this area is subpar. Some countries in the region committed far more resources to the development of Budget Inspections. These circumstances require thorough analysis and careful consideration in order to identify key challenges and adopt best practices from the region.

Learning from experiences of neighbouring countries and applying best practices can be a step toward achieving greater efficiency and transparency in budget management, thereby contributing to improved development of society and the economy.

Budget inspection (Montenegro)

- LEGAL FRAMEWORK

The role of budget inspector in Montenegro was established in 2014 through the *Law on Budget and Fiscal Responsibility*,¹ as the fundamental budget system law of Montenegro. Oversight over the implementation of this Law and associated regulations is carried out by the Ministry of Finance, and inspection control tasks are carried out by the budget inspector in line with this Law and the law that regulates inspection control in general.

The competences of the Budget Inspection were subsequently expanded by the *Law on Wages of Civil Servants and State Employees*² and the *Law on Local Self-Government Financing*,³ while the functioning of the inspection remained regulated by the Law on Inspection Control.⁴

Additionally, the Budget Inspection will be in charge of controlling implementation of the Law on Public Sector Accounting⁵ which will enter into force on 1 January 2027.

The Department for Budget Inspection carries out tasks related to: preparation and implementation of control measures over the legal and intended use of budget funds by spending units; preparation and implementation of budget execution control of local self-governments, public institutions, independent regulatory bodies, companies and legal entities owned by the state or municipalities, or those in which they have a majority ownership share; control of accounting, financial and other business documents of the subjects of inspection controls. The following roles are foreseen for this department: chief budget inspector - one position; inspector I - three positions.⁶

1 Articles 77, 78 and 79 of the Law on Budget and Fiscal Responsibility ("Official Gazette of Montenegro", no. 020/14, 056/14, 070/17, 004/18, 055/18, 066/19, 070/ 21, 145/21, 027/23).

2 Articles 38, 39 and 40 of the *Law on Wages of Civil Servants and State Employees* ("Official Gazette of Montenegro", No. 016/16, 083/16, 021/17, 042/17, 012/18, 039/18, 042 /18, 034/19, 130/21, 146/21, 092/22, 152/22, 152/22).

3 Articles 56, 57, 58, 59, 60, and 61 of the Law on Local Self-Government Financing ("Official Gazette of Montenegro", no. 003/19, 086/22).

4 Law on Inspection Control ("Official Gazette of the Republic of Montenegro", No. 039/03, "Official Gazette of the Republic of Montenegro", No. 076/09, 057/11, 018/14, 011/15, 052/16).

5 Article 47 of the Law on Public Sector Accounting ("Official Gazette of Montenegro", no. 66/19, 145/21, 123/23).

6 Rulebook on internal organisation and systematisation of job positions in the Ministry of Finance.

- **ABOUT THE WORK OF THE BUDGET INSPECTION**

For a long time, the position of chief budget inspector in Montenegro was unfilled, despite recruitment procedures being conducted on more than one occasion.

The Department for Budget Inspection currently has two filled positions, that of chief budget inspector, and inspector I. The chief budget inspector was appointed in July 2022, while the budget inspector I was appointed in September 2023. Regardless of the occupancy of these two roles, the work of the Budget Inspection can still not be qualified as effective.

In support of the above claim regarding the work of the Budget Inspection is the response of the chief budget inspector to the request for free access to information sent by Institute Alternative. The request for free access to information addressed to the Ministry of Finance asked for the following: records of inspection controls conducted by the Department for Budget Inspection in 2022 and 2023; decisions on measures, actions and deadlines for addressing identified irregularities, adopted on the basis of the work of the Department in 2022 and 2023.

In response to the aforementioned request, an e-mail was sent by the chief budget inspector on 26 June 2023, explaining that the newly formed Department for Budget Inspection was not fully operational (in terms of personnel and technical skills, as well as work regulations). The Department was dealing with submissions related to control of wage calculations, and oversight over the implementation of the Law on Wages of Civil Servants and State Employees. There were only two initiatives related to intended spending of budget funds, and the control procedure was ongoing.

Following a request for submission of copies of official records of inspection controls performed in the period 1 January 2023 – date of receipt of the request, the Ministry of Finance submitted a response on 26 September 2023 that the work methodology for the Department for Budget Inspection had not been established. The response stated that the methodology would define whether individual complaints will be acted upon or whether the work of the Department will be regulated by an annual Control Plan, underlining that the process would take some time.

In 2020, Institute Alternative published a list of recommendations for improving the work of the Budget Inspection. Key recommendations for the Budget Inspection to start functioning include as follows: change of systematisation, i.e. increasing the number of inspectors from 3 to 6; introduction of three departments for three systemic laws that are the subject of control, thereby covering the entire portfolio of Budget Inspection; abolition of the requirements for the chief inspector



(currently, requirements for the role of the chief budget inspector include “5 years of experience in inspection duties”).⁷

The European Commission report on Montenegro for the year 2022, under Chapter 32, financial control, states that: “The centralised Budget Inspection function in the Ministry of Finance is yet to become operational.”

On 21 July 2023, Institute Alternative submitted an initiative to the Budget Inspection to conduct inspection in public companies and companies owned by the state and local self-governments, in connection with possible violations of the Law on Wages of Civil Servants and State Employees.

In conversation with representatives of the Budget Inspection, Institute Alternative was told that the initiative would be taken into account in the process of drafting the annual Budget Inspection Control Plan, and that inspection control in public enterprises would be implemented. They added that appropriate criteria for conducting inspection control would need to be adopted.

The Budget Inspection Control Plan for 2024 was adopted and officially published on the Government of Montenegro website on 7 February 2024. The initiative by Institute Alternative in relation to inspection control is included in the Control Plan, according to which, the Budget Inspection is to conduct inspection control in 66 public companies, in connection with possible violations of the Law on Wages of Civil Servants and State Employees.

Unfortunately, Montenegro achieved extremely modest results in the area of Budget Inspection. We have not seen significant progress in achieving the objectives of this inspection since the appointment of the chief budget inspector. However, following the adoption of the Budget Inspection Control Plan for 2024, we expect significant improvements in this area, which will contribute to improving the effectiveness and efficiency of the work of the Budget Inspection in Montenegro.

⁷ Strong Budgetary Inspection in Three Steps, Institute Alternative, December 2020, available at: <https://cutt.ly/0wbGYtPL>



BUDGET INSPECTION (REPUBLIC OF SERBIA)

The Budget Inspection of the Republic of Serbia plays a key role in monitoring how public funds are managed, and ensuring proper use of budget resources. It is the foundation of transparency, responsibility and efficiency in budget management, both at the central and local levels.

The work of the Budget Inspection in Serbia is assessed as extremely efficient. This is facilitated by a well-defined legal framework and adequate use of inspection powers in practice. The high transparency that characterises their work is particularly highlighted. The website of the Ministry of Finance regularly publishes annual reports on the work of the Budget Inspection, future work programmes, the methodology applied during inspection controls, as well as checklists used in this process.

This level of transparency allows the general public to follow activities of the Budget Inspection in real time and gain insight into their role in preserving financial discipline and preventing possible abuse in management of public funds. Serbia has, undoubtedly, achieved exceptional progress in this area, which reflects the country's commitment to preserving transparency and responsibility in budget management.

• LEGAL FRAMEWORK

Budget Inspection in the Republic of Serbia is under the supervision of the Department for Budget Inspection, which acts as a discrete organisational unit in the Ministry of Finance. The Rulebook on Internal Organisation and Systematisation of job positions in the Ministry of Finance,⁸ published on the website of the Ministry of Finance of the Republic of Serbia, defines the responsibilities of the Budget Inspection.

Until 31 December 2022, the Budget Inspection was regulated by the Budget System Law,⁹ on the basis of which it was organised at three levels: republican (Ministry of Finance), provincial, and city/municipal (local). However, with the new Law on Budget Inspection¹⁰ that was passed in 2021, and entered into force on 1

8 Rulebook on internal organisation and systematisation of job positions in the Ministry of Finance (Regulation No. 110-00-459/2022-08, following adoption of amendments to Rulebook No. 110-00-269/2023-08).

9 Budget System Law ("Official Gazette of the RS", no. 54/2009, 73/2010, 101/2010, 101/2011, 93/2012, 62/2013, 63/2013 - corrected, 108/2013, 142 /2014, 68/2015 - state law, 103/2015, 99/2016, 113/2017, 95/2018, 31/2019, 72/2019, 149/2020, 118/2021, 138/2022 and 118/2021 – state law).

10 Law on Budget Inspection ("Official Gazette of RS", No. 118/2021) available at: <https://cutt.ly/CwnaOIAM>



January 2023, this inspection became centralised with only one Budget Inspection at the national level, which implies abolition of the Budget Inspection services of autonomous provinces and local self-government units. The new law aims to further regulate this area, primarily through strengthening the capacity of the Budget Inspection, increasing the efficiency of budget inspectors, digitalisation and computerisation, as well as improving cooperation with other actors.

Centralisation of the Budget Inspection was delivered with the aim of increasing the average number of conducted inspections per inspector, which in turn should increase the coverage and thus the effectiveness of the inspection. In addition to increasing the average number of inspections per inspector, centralisation of the Budget Inspection aims at administrative and functional strengthening of institutional capacity, which is achieved by implementing personnel measures - hiring budget inspectors and other officials, as well as their continuous professional training.

The Law on Budget Inspection stipulates that the Budget Inspection carries out inspection control of the legality of the use of public funds, collections and acquisitions of the system, the wages of users of budget funds, and the application of laws and other regulations that have an impact on public funds and funds from other sources such as income, receipts, expenditures, expenses, assets or liabilities by users of public funds in the sense of the law governing the budget system.

• ABOUT THE WORK OF THE BUDGET INSPECTION

The Budget Inspection plans and conducts inspection controls on the grounds of applications, petitions, objections and requests for inspections received from authorities, organisations, legal entities and natural persons. The Budget Inspection carries out regular and extraordinary inspection controls.

The Republic of Serbia has an exceptionally well-organised system of information sharing regarding the work of the Budget Inspection, which enables citizens, institutions and relevant structures to follow their activities. The website of the Ministry of Finance has a page dedicated to the Department for Budget Inspection,¹¹ where citizens can find regular annual reports on the work of the Budget Inspection, as well as the planned programmes of their activities for the coming year. Furthermore, solutions related to the expert-methodological instructions of the Budget Inspection of the Ministry of Finance, the methodology that underlies their work, the code of conduct and ethical principles that inspectors adhere to, as well as checklists used by the Budget Inspection of the Ministry of Finance are also publicly available.

11 Official website of the Ministry of Finance, Budget Inspection: <https://cutt.ly/8wb7m6nX>



The Budget Inspection has created checklists¹², which are used on a regular basis by budget inspectors. The checklist serves as guidelines for the inspection process, ensuring that key issues and aspects are taken into account, and considered in detail. The checklist guides the process of assessing the level of compliance of operations of the controlled entities with the law and other regulations, resulting in a risk assessment of subject. The obligation to create a checklist is prescribed by the Law on Inspection Control of the Republic of Serbia.¹³

A key contribution to improving the work of the Budget Inspection was the establishment of a digital service for monitoring budget controls, called E-inspector.¹⁴ E-inspector is an information system that aims to computerise all inspection services in the Republic of Serbia. Introduction of this information system improved coordination between inspections, automatised the work of inspection services, and increased the efficiency of the control process. The work of inspections is standardised, and data is available to all inspections. Direct communication with citizens and the economy through the E-inspector system also contributes to greater transparency.

The Budget Inspection enabled citizens and other legal entities to submit reports of suspicious activities and illegalities in the handling and use of budget and other public funds by mail or electronically, with the application form published on the website of the Ministry of Finance.

According to the 2022 annual report on the work of the Budget Inspection, the most significant measures and activities that were undertaken in that year include reduction of non-compliance with regulations through an effective control function, activities aimed at preparing for the implementation of the new Law on Budget Inspection through changes to the normative framework, and a new organisational structure.

Inspection controls have established that the level of compliance with the regulations, which is measured by checklists, is satisfactory.

The work programme of the Budget Inspection for 2022 contained a plan to carry out inspection controls over 52 entities. However, the total number of controls performed was 127, and two ran over into 2023. Out of the total number of controls performed, 43 were regular, and 84 were extraordinary inspection controls.

A total of 40 jobs were systematised in the Department for Budget Inspection of the Ministry of Finance of the Republic of Serbia, and by 25 November 2022, 27 of them were filled.

12 Available on the website of the Ministry of Finance of RS, Checklists: <https://cutt.ly/cwbGTicX>

13 Law on Inspection Control ("Official Gazette of RS", no. 36/2015, 44/2018 - state law and 95/2018).

14 Digital service, E-inspector, available at: <https://cutt.ly/rwnEawwh>



- **EXAMPLES FROM PRACTICE**

One of the ongoing cases of the work of the Budget Inspection, which was covered by the media, is the “combing” of faculties by the Budget Inspection. The administrations of four faculties of the University of Belgrade were ordered by the Budget Inspection to return funding due to irregularities that were identified in the use of public funds.

The Budget Inspection ordered the Faculty of Sports and Physical Education to pay more than RSD 120 million into the budget. According to the record of the inspection control, which covered the period from 2018 to September 2022, that Faculty was ordered to pay about RSD 26 million into the budget on grounds of illegally increased wage coefficients, and about RSD 90 million on grounds of illegally increased salaries. The Faculty is also obliged to pay to the budget account about RSD 1.4 million that it paid to working female employees for International Women's Day, an additional RSD 4.3 million that were paid on the occasion of Faculty Day, and another RSD 3 million on grounds of illegally paid fees for participation in the committee for approval, evaluation and viva of doctoral dissertations.¹⁵

The Faculty of Agriculture of the University of Novi Sad must return RSD 127.3 million to the budget of the Republic of Serbia on grounds of established illegalities in its operations, which is yet another positive example of the work of the Budget Inspection in Serbia. The said illegalities refer to a series of omissions in financial operations of the institution, payment of wages, benefits and other income.¹⁶

15 “Budget inspection ‘combing’ the Faculty: Faculty of Sports and Physical Education ordered to return RSD 120 million”, Portal Danas, V. Andrić 04/05/2023, available at: <https://cutt.ly/BwbGDUDE>

16 “The Ministry demands that the Faculty of Agriculture return RSD 127 million, arguing that they spent it illegally”, Portal 021, Gorica Nikolin, 20/03/2023, available at: <https://cutt.ly/vwbGD3UX>

BUDGET INSPECTION (BOSNIA AND HERZEGOVINA)

Bosnia and Herzegovina (BiH) is an administratively complex structure in the sense that responsibilities are divided between the state, its entities and the Brčko District. BiH is composed of two entities, the Federation of Bosnia and Herzegovina (FBiH) and the Republic of Srpska (RS), while the Brčko District (BD) is territorially separated as a unit of local self-government under the sovereignty of BiH. The Budget Inspection is also managed in accordance with this structure.

A piece of analysis, entitled “Budget Inspection in BiH: Gap Between Expectations and Real Possibilities,”¹⁷ carried out by the Centre for Research and Studies - GEA, shows that Budget Inspections in the Federation of Bosnia and Herzegovina, Republic of Srpska and Brčko District does not have sufficiently developed material-technical or human capacities. A key conclusion from this research is that the work of Budget Inspections in BiH is non-transparent, and that the practice of regularly preparing and publishing annual reports on the work of Budget Inspections is needed to keep the public informed.

- **LEGAL FRAMEWORK**

The key laws that define the work of the Budget Inspections in Bosnia and Herzegovina are the Law on Budgets in the Federation of Bosnia and Herzegovina and the Budget System Law of the Republic of Srpska. Both of these entity laws deal with the issue of budget oversight, control and audit, as well as the role of the Budget Inspection.

In the Federation of Bosnia and Herzegovina, budget oversight is understood as inspection control of the legality, timeliness and intended use of budget funds, including measures ordered to address established illegalities and irregularities. Budgetary oversight includes control of accounting, financial and other business documents of the subjects of oversight, i.e. users of budgetary and extrabudgetary funds, legal and natural persons who use funds from the budget and financial plans of extrabudgetary users, as well as control of the use of credit funds based on guarantees. Budget oversight is performed, ex officio, by budget inspectors who

17 “Budget Inspection in BiH: Gap Between Expectations and Real Possibilities,” Centre for Research and Studies - GEA, Đukić Ognjen and Martić Marko, January 2023, available at: <https://cutt.ly/hwnEDM0k>



are authorised employees of the Ministry of Finance, i.e. of the cantonal ministries of finance.¹⁸

More specific obligations and responsibilities of Budget Inspections are also regulated by a by-law, the Regulation on Budget Oversight in the Federation of Bosnia and Herzegovina.¹⁹ The regulation defines the method of implementation of the budget oversight procedure, as well as the work and powers of budget inspectors.

In the Republic of Srpska, the purpose of the Budget Inspection is to control the legality of spending of budget funds. Basic responsibilities and authorities of the Budget Inspection are prescribed, as well as procedures aimed at addressing observed violations and irregularities in the application of relevant laws in terms of the use of budget funds.²⁰

More specific obligations and responsibilities of the Budget Inspection are defined by a by-law, the Rulebook on the Manner of Work of the Budget Inspection.²¹ This Rulebook defines, among other things, the subject and procedure of Budget Inspection control, as well as the obligations and responsibilities of both budget inspectors and budget users who are subject to control.

The methods and procedures of budgetary control in Brčko District are more precisely defined by the Rulebook on the Procedure, Content, Method and Conditions of Budgetary Control.²² This Rulebook also establishes the procedure in case of grounds for suspicion that a criminal offense has been committed. The Budget Inspection employs one chief budget inspector and at least two budget inspectors.

• ABOUT THE WORK OF THE BUDGET INSPECTION

In line with the previously outlined normative framework for the work of Budget Inspections in the entities and Brčko District, the scope of budget oversight is clearly defined. Thus, pursuant to the relevant Regulation in the FBiH, the tasks of budget

18 Law on Budgets in the Federation of Bosnia and Herzegovina ("Official Gazette of FBiH", no. 102/13, 9/14, 13/14, 8/15, 91/15, 102/15, 104/16, 5/18,11 /19 and 99/19).

19 Regulation on Budget Oversight in the Federation of Bosnia and Herzegovina, available at: <https://cutt.ly/QetX12go>

20 Budget System Law of the Republic of Srpska ("Official Gazette of the RS", no. 121/2012, 52/2014, 103/2015 and 15/2016).

21 Rulebook on the Manner of Work of the Budget Inspection ("Official Gazette of RS", No. 76/13) available at: <https://cutt.ly/Fwnb4FSF>

22 Rulebook on the Procedure, Content, Method and Conditions of Budgetary Control ("Official Gazette of the Brčko District of Bosnia and Herzegovina", No. 12/20).

oversight of users of the budget of the Federation of Bosnia and Herzegovina, cantons, federal and cantonal extra-budgetary funds are performed by budget inspectors of the Federal Ministry of Finance, while the tasks of budget oversight of city and municipal administrative bodies are performed by budget inspectors of the competent Cantonal Ministry of Finance in the cantons on whose territory the city or municipality is located.

A budgetary control procedure is formally initiated at the order of the competent minister of finance. The competent minister of finance can also, should he deem it justified, issue an order for extraordinary budget inspection control.

We should note the specificity of the legislative solution in the Federation of BiH, where, in line with the relevant Regulation, the competent Ministry of Finance (federal or cantonal) can issue an order for the exercise of budget inspection control on the back of a direct request by citizens or authorised persons representing budget users, with prior submission of a written notification to the budget user who is subject of inspection control.

Unlike the Republic of Srpska and the Brčko District, the Regulation in FBiH does not prescribe obligations in terms of adopting an annual budget control plan; rather it is an integral part of the annual work plan of the administrative body within which the Budget Inspection sits. In addition to the annual budget control plan, the Rulebook in Brčko District also stipulates the obligation to prepare a plan for individual monthly controls.

However, when it comes to information regarding the capacities of Budget Inspections and their key results, they are not easily available to the public. A search of the websites of the Ministry of Finance of FBiH, RS and BD, reveals no data on the work of Budget Inspections. Therefore, publicity, transparency and responsibility in the management of public funds is not ensured.

• **EXAMPLES FROM PRACTICE**

An example from 2021 that received wide media coverage was that Tuzla Airport owed 1.5 million convertible marks (KM) and was incurring additional debt. The Government of the Tuzla Canton allocated KM 1.5 million to cover the debt of the Tuzla International Airport. Following an analysis of the company's finances, the Budget Inspection found enormous debt related to fuel supply, as well as late interest. There was additional accumulated debt to the Administration for Indirect Taxation of Bosnia and Herzegovina, further burdened by new employment and



salary increases. The findings of the Budget Inspection were sent to the Cantonal Prosecutor's Office of Tuzla Canton.²³

A more current example is from May 2023, when the Budget Inspection determined that budget reallocations of the mayor of Bijeljina in the amount of KM 1.3 million were illegal. The Budget Inspection of the Ministry of Finance in the Government of the Republic of Srpska found that, following the adoption of the Budget of the city of Bijeljina for 2023, the mayor unilaterally made eleven conclusions on reallocation of funds, in the total amount of KM 1,329,151. The Budget Inspection determined that during the preparation and adoption of the budget, the city did not adhere to the deadlines prescribed by the budget calendar, which all led to a violation of the Budget System Law of the Republic of Srpska.²⁴

BUDGET INSPECTION (REPUBLIC OF CROATIA)

Budget oversight plays a key role in ensuring responsible and transparent management of public finances in Croatia. It is used to detect irregularities, corruption and abuse of public funding, thereby ensuring integrity and accountability in budget management. Inspection oversight of the budget in Croatia plays an important role in implementation of control and oversight in order to ensure the legality, transparency and efficiency of spending of public funds.

The Department for Financial and Budgetary Oversight in Croatia has clearly defined and legally regulated competences, but the issue of reporting and transparency of work is a challenge that requires additional attention, as this information is not easily available, nor is it possible to access it through the website of the Ministry of Finance.

One of the factors that contributes to quality oversight of the budget in Croatia is the active role of citizens. Citizens have the opportunity to participate in the control of public finances through a special e-mail address, which is available on the official website of the Ministry of Finance. Thereby, citizens become an indispensable part of the budget monitoring process, because their reports can lead to investigations and additional monitoring.

23 "Tuzla Airport owes KM 1.5 million and incurs new debt", *Portal Tuzla Press*, J. Bojić / Faktor, available at: <https://cutt.ly/fwbGBcBx>

24 "Illegal budget reallocations of the mayor of Bijeljina in the amount of KM 1.3 million", *Portal Info Bijeljina/SRNA* 15/05/2023, available at: <https://cutt.ly/WwbGB1H2>



- **LEGAL FRAMEWORK**

The Ministry of Finance has a Directorate for Financial Management, Internal Audit and Oversight, which established a Department for Financial and Budgetary Oversight. This unit performs the tasks of financial and budgetary oversight, as specified by law. The law defining the role of budget oversight in Croatia is the Budget Law.

Budget oversight is a form of inspection control of the legality, expediency and timeliness of the use of budget funds, the timeliness and completeness of the collection of revenues and receipts under the jurisdiction of budget users and bodies of local and regional (regional) self-government units, and inspection control of compliance with and application of laws and other regulations that have an impact on budget funds and funds from other sources, whether it is revenue/receipts, expenditures, returns, assets or liabilities.²⁵

The Ministry of Finance performs budgetary oversight of budgetary and extra-budgetary beneficiaries of the state budget, local and regional self-government units and associated budgetary and extra-budgetary beneficiaries that are commercial companies, and other legal and natural persons who receive funds from the budget, and financial plans of extra-budgetary beneficiaries. It also performs oversight over the use of credit funds based on state guarantees and guarantees issued by units of local and regional self-government (subjects of oversight).

In the course of 2022, the Rulebook on Budgetary Oversight²⁶ was adopted in Croatia, which prescribes the goals, scope, content, method and conditions of performing budgetary oversight, i.e. the responsible persons to whom a budgetary inspector is obliged to deliver the record of the performed budgetary oversight, the person authorised to conduct budgetary oversight, and measures of budgetary oversight. This Rulebook is issued by the Minister of Finance.

- **ABOUT THE WORK OF THE BUDGET INSPECTION**

The Budget Law and the Rulebook on Budgetary Oversight prescribe that budget inspection control should be carried out on the back of citizens' petitions, requests from state administration bodies, local and regional (provincial) self-government units and other legal entities, regarding suspicion of illegality or fraud. Budget inspection control is carried out according to established criteria, priorities, economic and public interest in oversight, by order of the Minister of Finance, if the Ministry of Finance

25 Budget Law ("*Narodne novine*", number 144/21), available at: <https://cutt.ly/FwnES1ay>

26 Pursuant to Article 145, Paragraph 4 of the Budget Law (Official Gazette, No. 144/21).



has data or information from other sources, the analysis of which has established suspicion of illegality or fraud in the management of budget funds.

The procedure of budget inspection control is performed through direct control of accounting, financial and other business documents, as well as inspection of business premises, buildings, assets, goods and other things in line with the purpose of inspection control.

Budget inspectors have a special authorisation from the Minister of Finance, as well as official IDs. The Minister of Finance also issues a Rulebook²⁷ that prescribes the appearance of the budget inspector's official ID, keeping records of official IDs as well as the manner of their issuance, use and replacement.

If, during the transfer of budget funds from ministries to local units, and further on to commercial entities, citizens' associations, or natural persons, reports on the funds spent are not submitted, or are submitted but without credible documentation as proof of the use of the transferred funds, the inspection has the authority to control the physical and legal entities that are beneficiaries of budget funds. Inspectors are also given the option to conduct an extraordinary budget control without prior notice in case of suspicion of irregularities and fraud.

The website of the Ministry of Finance features an open e-mail address for reporting irregularities, within the section dedicated to Department for Budgetary Oversight. This email address is intended for reporting irregularities in the management of budget funds of the state budget of the Republic of Croatia, budget funds of local and regional (provincial) self-government units, be they revenues/receipts, expenditures/outflows, refunds, assets or liabilities.

• EXAMPLES FROM PRACTICE

Analysing Croatian media reports, one can find examples of initiated budgetary inspection controls, but information on their outcome is less often available. One of the examples is the wage research at Zagreb faculties, initiated on the back of an assertion by the Minister of Education that certain faculties made changes without consent of the relevant Ministry.²⁸ Another notable another example is the conduct of budget inspection control by the Ministry of Finance in the Municipality of Zadar.²⁹

27 Rulebook on the official ID of financial and budget inspectors, available at: <https://cutt.ly/UwnEA4RS>

28 "Certain faculties made unauthorised changes to the system", *Jutarnji List*, 2018, available at: <https://cutt.ly/lwbG1X3Q>

29 Mijolović: Budget inspection control is still ongoing in the City, *Zadarski List*, January 2023, available at: <https://cutt.ly/kwbG0uMJ>



FINANCIAL INSPECTION (REPUBLIC OF NORTH MACEDONIA)

In the Republic of North Macedonia, the financial inspection control represents a retroactive activity of controlling the legality of business operations and other tasks in the field of financial management and control. The purpose of financial inspection control is to protect the financial interests of public sector entities from serious financial malfeasance, fraud and corruption among public sector entities.

North Macedonia achieved some progress in this area, facilitated mainly by the recent adoption of the Law on Financial Inspection in the Public Sector, which has improved the efficiency of this inspection. There are clear examples of inspection controls, which indicates high transparency of operations, on the website of the Ministry of Finance of the Republic of North Macedonia,³⁰ where data is updated on a regular basis.

- **LEGAL FRAMEWORK**

According to the Law on Financial Inspection in the Public Sector, financial inspection tasks are performed by the Department for Financial Inspection in the Public Sector, as a discrete organisational unit within the Ministry of Finance. The work of this Department is managed by the Chief Financial Inspector, who reports directly to the Minister of Finance.

The Department was established in 2015 and, according to the Rulebook on the Systematisation of Jobs in the Ministry of Finance, adopted by the Minister of Finance in 2018, it was restructured as the Department for Financial Inspection in the Public Sector and Coordination of the Fight against Abuse of European Union Funds. Therefore, it was split into two departments: the Department for Financial Inspection of Entities at the Central and Local Level, and the Department for Coordination of the Fight Against Abuse of European Union Funds (AFKOS).

With the new Rulebook on Internal Organisation of the Ministry of Finance, adopted in 2022, the Department for Financial Inspection was divided into two new departments: the Department for Financial Inspection of Entities in the Public Sector at the Central Level and the Department for Financial Inspection of Entities

³⁰ Ministry of Finance of RNM, Financial Inspection in the Public Sector, available at: <https://cutt.ly/zwbJV5v5>



in the Public Sector at the Local Level. A total of 14 jobs were systematised for the new Department, including the chief inspector and assistant chief inspector.

The decision to adopt a new Law arose from the need to improve the efficiency of the financial inspection in oversight, as well as to overcome shortcomings in the existing legislation, identified in the course of implementation of the law by the Financial Inspection.

Financial inspection controls are carried out with beneficiaries of the budget of the Republic of North Macedonia, funds, municipalities and the city of Skopje, agencies and other institutions established by law, public companies, public institutions and other legal entities that are owned by the state, municipalities, or the city of Skopje, or in which the state, municipalities, or the city of Skopje have a share, with beneficiaries of EU funds, as well as non-profit organisations and other legal and natural persons, where does entities receive public funds or guarantees.³¹

• ABOUT THE WORK OF THE FINANCIAL INSPECTION

Financial inspection control is carried out on the basis of written applications submitted by natural persons, managers or employees of supervised entities, as well as legal entities. The new legal framework established that the financial inspection would not be conducted in the case of an anonymous report, unless such an anonymous report is supported by evidence, or contains grounds for suspicion of irregularities or a criminal offense in the financial management of public or EU funds.

Through its website, the Ministry of Finance publishes information of relevance to the public about actions and control measures undertaken for the purpose of protecting public financial interests. The website contains laws and by-laws, the default application form for initiating financial inspection control, as well as inspection decisions, or decisions on rejected applications for inspection control. In these decisions, a rationale for the rejection of the application is provided (most often, lack of evidence). Annual reports on the work of the Financial Inspection, which are supported by detailed analysis and relevant data, are also published and kept up to date.

A special department, the Academy for Public Finance, was established in the Ministry of Finance, dedicated to continued professional development and training

³¹ Law on Financial Inspection in the Public Sector (Official Gazette of RNM No. 19/23), available at: <https://cutt.ly/AwbKjQha>



for financial inspectors, and their initial accreditation.³² Information that is available to the public through the website includes the Rulebook on the method of taking the financial inspector exam, the programme for the method of taking the exam, the application, the handbook, as well as the list of candidates and the points they scored in exams.

In the period 2014 - end of 2022, a total of 11,310 applications were submitted to the financial inspection. Of these, during 2022, the Department accepted 2,865 applications, i.e. an average of 239 applications per month. Additionally, 17 such applications in 2022 refer to a larger number of public sector entities, i.e. an average of one application per 142 public sector entities. Therefore, in the Department's records, those applications are kept separately, categorised by the entities to which they refer.

- **EXAMPLES FROM PRACTICE**

Information on the activities of the financial inspection and the number of controls carried out is available through reports provided by the Ministry of Finance. However, it should be noted that cases of implemented financial controls do not have extensive media coverage. That the public sector will be under the scrutiny of the financial inspection is the last available media report following adoption of the new Law.³³

32 Rulebook on internal organization and jobs at the Ministry of Finance, available at: <https://cutt.ly/OwbKhhgl>

33 Public sector under the scrutiny of the financial inspection, *Nezavisen* 24/01/2023, available at: <https://cutt.ly/1etBpN3e>



BUDGET INSPECTION (REPUBLIC OF SLOVENIA)

The Department for Budget Inspection in Slovenia plays a key role in controlling the implementation of the Law on Public Finances and regulations governing the management of the state budget. Their main goal is to detect possible irregularities and ensure compliance with the Law in how public funds are managed.

The Republic of Slovenia can be commended for a highly organised work system of this inspection, starting from a solid legal framework to its successful implementation in practice. The Budget Inspection achieves significant results in ensuring a safe and transparent use of state budget funds. Emphasis is also placed on high transparency in their operations, with regular information sharing on strategic guidelines and future priorities, as well as results of inspection controls. It follows from the above that the operational efficiency, capacities and results of the Budget Inspection in Slovenia have high standards and represent an inspiring example for all who strive to improve their institutions.

- **LEGAL FRAMEWORK**

The Budget Inspection is an inspection authority that operates as a department within the Office of Budget Oversight of the Republic of Slovenia, a body within the Ministry of Finance.

In the Department for Budget Inspection, inspection control is carried out over the implementation of the Law on Public Finances and other regulations governing the operation of state budget funds, control over the implementation of the Law on Transparency of Financial Relations, and over the use of dedicated funds that municipalities receive on the back of Article 29 of the Law on Municipal Financing from the State Budget.

A party in the inspection procedure is any direct or indirect beneficiary of the state or municipal budget for funds received from the state budget, with the exception of the National Parliament, the State Council, the Constitutional Court, the Protector of Citizens, or the Court of Auditors.³⁴

³⁴ Law on Public Finances (Official Gazette of RS, no. 11/11–official revised text, 14/13–pop., 101/13, 55/15–ZFisP, 96/15–ZIPRS1617, 13/18, 195/20– odl. US, 18/23–ZDU-10 in 76/23), available at: <https://cutt.ly/Ownw28j6>



Direct and indirect users and other recipients of state budget funds are obliged to enable budget inspectors to carry out inspection control for funds received from the state budget and to provide all necessary data, documents and reports related to inspection controls, as well as to enable computer processing of this data. Any other recipient of funds from the state budget is obliged to allow the budget inspector to carry out inspection controls for funds received from the state budget.

- **ABOUT THE WORK OF THE BUDGET INSPECTION**

Inspection control procedures are carried out ex officio on the basis of the annual work plan, which determines the number of regular controls and controls that will be carried out on the back of received applications or initiatives from other authorities. All such applications, including anonymous reports, inspection control initiatives and other requests, are considered. If it is estimated that there are grounds for suspicion of a violation of the regulations, the inspection control procedure is automatically initiated.

Inspection control tasks are performed by budget inspectors as employees with special authorities in the ministry responsible for financial affairs. Budget inspectors have permission to independently make decisions and conduct inspection controls. The inspection also provides recommendations for addressing irregularities, and suggestions for improving financial management procedures. In the case of violations of the Law, the inspectorate initiates misdemeanour proceedings and cooperates with the competent authorities.

The official website of the Ministry of Finance of the Republic of Slovenia, under the section dedicated to the Department for Budget Inspection, offers all essential information about the work of this institution. Detailed data on the operation of the Department, its competences, the inspection control procedure, and the application of appropriate measures are all available. Additionally, information on the annual work plan, strategic guidelines and priorities of the Budget Inspection is regularly updated. A prominent element of transparency in their work is regular publication of the records of conducted controls, which are also available for previous years, as well as conclusions and decisions made during inspection controls. These documents are accompanied by semi-annual Budget Inspection reports.

A convenient option available on this website is the ability to report violations to the Office of Budget Control. The procedure for submitting anonymous applications is described in detail, enabling electronic, postal or personal submission of applications.



For 2023, the Budget Inspection of the Republic of Slovenia planned to carry out 60 inspection controls over the application of the Law on Public Finances and other regulations that touch on the state budget, including 45 regular inspection controls and 15 inspection controls based on applications and initiatives. Inspection controls based on applications may deviate from the plan, depending on the number and content of applications received.

• EXAMPLES FROM PRACTICE

There are numerous examples of publicly available inspection controls in the Republic of Slovenia, which is clearly indicated by published records of performed controls, available on the website of the Ministry of Finance, Department for Budget Inspection. In addition to records that are published following inspection controls, dating from 2016 to July 2023,³⁵ the website also contains decisions and conclusions of the Budget Inspection.

One of the latest published decisions implies that the Ministry of Justice must return EUR 50,050.00 of inappropriately used funds to the budget of the Republic of Slovenia.³⁶ Official records and decisions and conclusions made by the competent inspector within a particular procedure, are defined in detail and contain all relevant information that is subject to the competence of the Budget Inspection.

35 Record of inspection control over the implementation of the Law on Public Finances, and the regulations on the use of budget funds by budget beneficiaries, AGENCY FOR THE AGRICULTURAL MARKET AND RURAL DEVELOPMENT OF THE REPUBLIC OF SLOVENIA, 13/07/2023, available at: <https://cutt.ly/1wb2BKv3>

36 Decision of the Ministry of Justice, Župančičeva ulica 6, Ljubljana must return inappropriately spent budget funds to the budget of the Republic of Slovenia, 20/07/2023, available at: <https://cutt.ly/Lwb21Nou>

CONCLUSION

Although the role of the Budget Inspection is key for preserving transparency, responsibility and efficiency in the management of public resources in Montenegro, it seems that the challenges and obstacles on the way to achieving those goals have remained unaddressed.

Countries that have made significant progress in the area of budgetary oversight have often managed to create strong institutional frameworks, provide adequate resources, and invest in training and capacity development. This comprehensive approach enables them to effectively monitor and control how the state budget is managed, thus ensuring transparency and accountability in spending of public funds.

Serbia and North Macedonia have, undoubtedly, achieved exceptional progress in the field of budget inspection controls. Both countries have a well-defined legal framework – Law on Budget Inspection (RS) and Law on Financial Inspection (RSM) - and focus on application of inspection authorities in practice.

Both countries also offer high transparency of the work of Budget Inspections, which can be seen from regular publication of annual reports on the work of the Budget Inspection, future work programs, the methodology applied during inspection controls, as well as other information of relevance regarding these institutions.

Serbia also introduced checklists that serve as guidelines for the inspection process, ensuring that key issues and aspects of work are taken into account and considered in detail. The Ministry of Finance of North Macedonia established a Public Finance Academy, which focuses on professional development and training of financial inspectors, as well as accreditation for financial inspectors.

Similarly, Croatia established a Rulebook on Budget Oversight in 2022, which prescribes the goals, scope, content, method and conditions of budget oversight, i.e. the responsible persons to whom the budget inspector is obliged to submit records of budget inspection controls, the person authorised to conduct the control, as well as other measures of budgetary oversight.

Slovenia is an extremely inspiring example in terms of the work and transparency of the Budget Inspection. Their exceptionally good practice includes regular publishing of strategic guidelines and priorities for the work of the Budget Inspection. It can also boast with numerous examples of successful inspection controls, illustrated by the number of records on conducted inspections, as well as the number of published decisions and conclusions of the Budget Inspection after each performed control.



On the other hand, the situation in Bosnia and Herzegovina is not much different from that in Montenegro, as far as efforts to improve the efficiency of Budget Inspections are concerned. Unfortunately, the work of Budget Inspections in BiH is often not sufficiently transparent, although there are appropriate regulations in place. This country faces an additional challenge – that of lack of capacity for effective budget oversight.

Montenegro and Bosnia and Herzegovina need to invest significant efforts in improving the overall transparency and efficiency of Budget Inspections. Such an approach would contribute to improved management of public finances and ensure a greater degree of responsibility in how budget funding is used, which is essential for maintaining integrity and stability of the financial system.

A study of experiences from the region revealed that other countries have, to varying degrees, invested resources in developing the institute of Budget Inspection. From a well-defined legal framework, over effective implementation of those frameworks in practice, to transparent sharing of information with the public, many countries have set high standards. This example should be followed, taking into account that it contributes to building citizens' trust in the system and improving the public finance control system.

Recommendations

The following recommendations follow from the analysis of challenges faced by the Budget Inspection in Montenegro, as well as research of the legal framework and practice of authorities in the region:

01

The Ministry of Finance, as the competent authority for Budget Inspection, should primarily focus on improving the personnel and technical capacities of this institution. To overcome these shortcomings, this institution should consider investing in training and development of staff, as well as providing the necessary technical support. Expansion of the Budget Inspection team, which currently has two filled positions, would contribute to improved coverage of inspection activities and increase the institution's ability to identify and resolve potential irregularities in the management of public finances.

02

The legal framework that is currently in force requires revision and improvement in order to ensure more efficient work of the Budget Inspection. A clearly defined legal framework for Budget Inspection should be established, including through adoption of a Law on Budget Inspection, following the example of Serbia and North Macedonia. A special law on Budget Inspection would ensure a solid foundation and provide greater clarity of the work of this institution. Such a step would be key to strengthening citizens' trust in the use of the public purse.

03

It should also be noted that the Department for Budget Inspection does not currently have an established work methodology that would serve as a structural foundation for its operations. This represents a significant challenge in ensuring coherence and efficiency of their operations. Therefore, a clear and comprehensive work methodology for Budget Inspection should be established as soon as possible. This methodology should include steps, processes and guidelines for performing inspection activities, budget analysis and decision-making.

04

Special attention should be paid to increasing transparency of the work of the Budget Inspection. Currently, there is a clear lack of publicly available information about the work of this institution. The website of the Ministry of Finance should have a section dedicated to the Budget Inspection that would contain relevant information about its activities. Annual reports on the work of the Budget Inspection should be publicly available, alongside work plans, a clearly defined methodology, as well as records on conducted inspection controls, decisions and conclusions on the performed controls, following the example of Slovenia. This step would enable citizens to follow the work of the Budget Inspection and understand its role in preserving financial discipline and preventing possible abuse in the management of public funds.



About Institute Alternative

Institute Alternative was founded in 2007 in Podgorica with the mission of strengthening democratic processes and good governance in Montenegro, through research and analysis of public policy options, as well as monitoring the work of public administration.

We function as a research centre (think tank) and work on good governance, transparency and accountability through three main program strands: I) public administration reform; II) accountable public finances; III) rule of law.

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