

Standard Summary Project Fiche – IPA centralised programmes  
**Project Fiche: 10**

**1. Basic information**

- 1.1 CRIS Number: 2009/021-170
- 1.2 Title: **Strengthening the State Audit Institution in Montenegro**
- 1.3 ELARG Statistical code: 03.32
- 1.4 Location: Montenegro

**Implementing arrangements:**

- 1.5 Contracting Authority: Delegation of the European Commission to Montenegro
- 1.6 Implementing Agency: GTZ
- 1.7 Beneficiary (including details of project manager):

State Audit Institution (SAI)  
Novaka Miloseva bb  
81000 Podgorica, Montenegro  
Contact person: Ms Ivana Jovanović,  
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**Financing:**

- 1.8 Overall cost: 800,000 EUR
- 1.9 EU contribution: 800,000 EUR
- 1.10 Final date for contracting: Two years from the date of the conclusion of the Financing Agreement
- 1.11 Final date for execution of contracts: Two years from the final date for contracting
- 1.12 Final date for disbursements: One year from the final date for execution of contracts.

## 2. Overall Objective and Project Purpose

### 2.1 Overall Objective:

Effective verification of the functioning of the management and control systems for the EU and public funds in Montenegro

### 2.2 Project Purpose:

To strengthen the operational capacity of the State Audit Institution and the Audit Authority of Montenegro.

### 2.3 Link with AP/NPAA/EP/SAA

#### ✦ European Partnership

*European Partnership with Montenegro (2007/49/EC)*

##### 3.1. SHORT-TERM PRIORITIES

Key priorities

- According the constitution and in line with European standards, in particular in the areas of human and minority rights, organisation of the judiciary, audit, defence and security structures, the legal infrastructure has to be enforced and respected.

##### 3.2. MEDIUM-TERM PRIORITIES

Financial control

- Strengthen the operational capacity, and the functional and financial independence of the State Audit Office.

#### ✦ 2008 Progress Report

##### 4.2.7. Financial control

In the area of **external audit**, the country's constitution, adopted by parliament in October 2007, includes provisions on the independence of the State Audit Institution (SAI), which became a member of INTOSAI in November 2007. A rulebook on examinations to qualify as a State auditor has been introduced and every member of SAI has passed the examinations. Consideration should be given to drawing up a strategic development plan.

Developments in PIFC and external audit are at an early stage. Considerable awareness-raising efforts and training on the new systems will be required.

#### ✦ Stabilisation and Association Agreement (SAA)

Article 92

Internal control and external audit co-operation

Co-operation between the Parties shall focus on priority areas related to the Community *acquis* in the fields of public internal financial control (PIFC) and external audit. The Parties will, in particular, co-operate with the aim of - through elaborating and adopting relevant regulation - developing transparent, efficient and economic PIFC including financial management and control and functionally independent internal audit) and independent external audit systems in Montenegro, in accordance with internationally accepted standards and methodologies and EU best practices. Co-operation shall also focus on capacity building of the Supreme Audit institution in Montenegro. In order to be able to fulfill the co-ordination and harmonization responsibilities stemming from the requirements above, co-operation should also focus on the establishment and strengthening of central harmonization units for financial management and control and for Internal Audit.

#### **2.4 Link with MIPD**

According to MIPD introduction IPA's general objective is to achieve a "progressive alignment of the beneficiary countries with the standards and policies of the European Union, including where appropriate the *acquis communautaire*, with a view to membership". Montenegro benefits from Components I and II of IPA, and until it receives DIS accreditation IPA assistance is managed "centrally" (i.e. by EC).

#### **2.5 Link with National Development Plan**

Not applicable

#### **2.6 Link with national/sectoral investment plans**

Not applicable

### **3. Description of project**

#### **3.1 Background and justification:**

The Parliament of the Republic of Montenegro, at the session on April 21<sup>st</sup> 2004 passed the Law on State Audit Institution (Official Gazette of the Republic of Montenegro № 028/04-10, 027/06-27, 078/06-40 and Official Gazette of Montenegro № 017/07-25), which defines the establishment of the State Audit Institution of the Republic of Montenegro as an institutional, external, independent, professional and impartial control of the budget expenditures and state property management in Montenegro.

State Audit Institution is an independent and autonomous state organ and it functions in accordance with the Lima Declaration guidelines, that were adopted in October 1977 at the IX INTOSAI Conference in Lima (Peru), as the principal international document on legal organization, position and activities of the public sector audit. In the Constitution of Montenegro (Official Gazette of the Republic of Montenegro, № 01/07) according to Article 144 State Audit Institution is defined as independent supreme body of state audit. The State Audit Institution submits annual report to the Parliament of Montenegro and it is under control of SAIs Senate.

Audit procedure must be carried out in accordance with the International audit standards INTOSAI adopted by the International Organization of Supreme Audit Institutions (INTOSAI). All Supreme Audit Institutions grouped in INTOSAI are obliged to ensure the consistent implementation of the Lima Declaration guidelines.

State Audit Institution is a supreme control organ of budget and state property, local government units, funds, the Central Bank of Montenegro and all other legal entities that the state has its ownership in.

The Institution independently determines the audit entities, content, volume and audit type. Once a year, the Institution is obliged to audit the annual budget balance sheet of the Republic of Montenegro.

The State Audit Institution controls the regularity, thrift, efficacy and efficiency of budget expenditures and the state property management. The Institution informs the Parliament of the Republic of Montenegro about the audit results by submitting an annual report. The annual report has to be presented to the Parliament by the end of October.

In July 2004, the Parliament of the Republic of Montenegro appointed the president and members of the Senate of the State Audit Institution, and that created all the formal and legal conditions for the start of the Institution.

The Board of Economy, Finances and Environmental protection of the Parliament of the Republic of Montenegro in July 2004, on the basis of a public competition, elected six state auditors.

### **Legislation & procedures**

In addition to its control and advisory function the State Audit Institution conducts administrative activities as well. The following acts were adopted:

- Law on State Audit Institution (Official Gazette of the Republic of Montenegro № 028/04-10, 027/06-27, 078/06-40 and Official Gazette of Montenegro № 017/07-25)
- Rules of Procedure of the State Audit Institution (Official Gazette of the Republic of Montenegro, № 50/07)
- Instructions on the Methodology of work of the State Audit Institution (Official Gazette of the Republic of Montenegro, № 02/05)
- Code of Ethics of the State Officers and Employees in the State Audit Institution
- Rules of income supplements for auditors and the other employees in the State Audit Institution (Official Gazette of Montenegro, № 021/08-19)
- Method of passing through the examination to become a State Auditor (Official Gazette of the Republic of Montenegro, № 23/07)
- Programme for passing through the examination to become a State Auditor (Official Gazette of the Republic of Montenegro, № 44/06)
- Regulations of official identity card of authorized person of the State Audit Institution (Official Gazette of the Republic of Montenegro, № 45/08)

In the Constitution of Montenegro (Official Gazette of the Republic of Montenegro, № 01/07) in Article 144 is defined that State Audit Institution is independent supreme body of state audit.

Further, on the country is preparing intensively for the introduction of a decentralised implementation system (DIS) for the management of the EU funds in Montenegro and in particular for the management of the IPA Components 1 and 2. The IPA Implementing Regulation (Articles 21 to 31) requires that the GoM designates an audit authority (AA), which is functionally independent from the management and control systems and which fulfils its tasks in compliance with internationally accepted audit standards. The Audit Authority shall be responsible for the regular audit on the use of the EU (IPA) funds and reporting to the European Commission and the Competent Accrediting Officer. Audit Authority has to give its opinion also to the closure of IPA programmes.

The placement of the Audit Authority is still not completely finalised. According to the current arrangements the AA will be placed within SAI for a limited period of time. However, a decision may be taken meanwhile to set up the AA as an independent unit under the direct authority of the Prime minister. Any other solution may also be envisaged.

### **3.2 Assessment of project impact, catalytic effect, sustainability and cross border impact**

The proposed project will have clear positive impact on the functioning of the management and control systems in Montenegro and will support the development of effective and transparent administration.

This project will also have direct **impact** on meeting the requirements of the IPA implementing regulations regarding the needed structures and procedures concerning the proper management of the EU funds. One of the crucial bodies that must be in place for the conferral of the decentralised management is the Audit Authority.

Setting up an efficient and effective AA will enable the necessary independent control over the implementation of the IPA projects and programmes as stipulated in IPA implementing regulation.

A competent and independent AA is crucial institution for lawful, effective and efficient management of EU funds. This proposed project will help to build up the capacity and skills to fulfil that supervisory role.

The proposed project will also have an impact on improved **Management and control** systems in institutions involved in implementation of IPA funds and on the overall quality of internal audit function.

The establishment of the AA will impact also positively the introduction of DIS for components 3, 4 and 5 as the same body will be responsible for the audit of the management and control systems under all IPA components.

### 3.3 Results and measurable indicators

The proposed project will achieve the following results:

***Result 1: Audit process, including planning, implementation and reporting aligned with EU best practice.***

*The achievement of this result will be measured through the following indicators:*

- Yearly audit plan established and Risk assessment model introduced in the audit of IPA funds;
- Sampling methods and Assurance model for System Audits introduced;
- Manuals on System Audit and Audit of Operations adopted;
- Reporting on IPA funds-related audit introduced

***Result 2: Established Audit Authority and ensured know how on auditing IPA funds***

*Measurable indicators:*

- The AA institutionally established;
- At least 3 fully trained auditors with thorough knowledge of system auditing and auditing of operations, which will be capable of performing audits of all IPA implementing structure institutions, final beneficiaries and final recipients and issuing an Audit opinion on effectiveness of Management and Control System, correctness of statement of expenditure and legality and regularity of underlying transactions.

### 3.4 Activities

#### **1). Activities related to auditing process, including planning, implementation and reporting aligned with EU best practice. (Result 1)**

They will include:

- Analysis of the Audit planning process and drafting of recommendations for its improvement in line with the international audit standards;
- Introduction of risk assessment model in planning;
- Support for reorganisation of the audit planning process where needed;
- Drafting of Manuals for System Audit and Audit of Operations;
- Defining of Sampling Method and Assurance model for System Audits;
- Drafting of Audit reporting manual and Audit opinion model;
- Assess the training needs and development of training programmes in audit-related skills and core competences for managers and auditors; organisation of focused overseas study tours if necessary;
- Analyse the needs of the SAI and the AA in terms of technological support, namely development of IT system for audit management and computer-assisted audit techniques.

## **2). Activities related to establishing Audit Authority and ensuring know how on auditing IPA funds (Result 2)**

They will include:

- Assessment of the legislative basis and the needs for changes regarding the institutional establishment of the Audit Authority
- Elaboration of methodology for auditing IPA funds in compliance with the EU requirements;
- Development of training programmes and tools;
- Delivery of training to auditors on new planning procedures, new System Audit procedures, and new Audit of Operations procedures;
- Support for pilot audit for verification of the IPA-related management and control systems.

The project will be implemented through an indirect centralised management agreement with GTZ. No particular requirement regarding the contract sequencing should be applied.

### **3.5 Conditionality and sequencing:**

The project includes the following conditions:

- The Government continues to demonstrate its commitment to set up IPA implementing structures. Capacity building in the AA requires sustained ownership and strategic commitment from the Government and the State Audit Institution, and investment in terms of resources and expertise.
- The beneficiary is fully committed to implement the proposed project, which specifically means it appoints adequate qualified staff (including translators/interpreters) to participate in the project implementation (including all training sessions), as well as allocates appropriate working space and facilities.
- Establishment of the necessary legal base for constitution of the Audit Authority and for clearly defining its competencies.

In the event that conditionality is not met, suspension or cancellation of the projector part of it will be considered.

### **3.6 Linked activities**

The *“First Steps for a Decentralised Implementation System”* project funded under CARDS is expected to strengthen administrative and managerial capacities of DIS key stakeholders and structures in order to obtain a positive compliance assessment by the European Commission. The project, which is expected to finish by December 2009, shall provide assistance to the main stakeholders involved in implementation of IPA Components 1 and 2 in establishment of relevant institutional and legal framework for implementation under decentralised system. Further more, the project will provide assistance in design and

appropriate set up of financial management and control systems with rules and procedures described in procedures manuals, in compliance with IPA requirements and accreditation criteria, as laid down in the Annex 1 of the IPA Implementing Regulation. The present project will build upon the results of "First steps to DIS" project as the strengthened Audit Authority shall be responsible for verifying the effective and sound functioning of the management and control systems approved with the accreditation of the DIS system for IPA Components 1 and 2 in Montenegro.

### **3.7 Lessons learned.**

Implementation of projects in the Public administration so far outlined few important issues to be addressed during project management.

The capacity to enforce the introduced changes has to receive more attention and support from the respective institutions. Further on all needed resources (human, technical, material and financial) have to be provided by SAI and GoM. The sufficient allocation of staff and resources on behalf of the main beneficiary of the project is considered as a condition for the start of the project.

Additionally, the motivation of the public officials to continue their career and professional development in the SAI and the AA is to be addressed. High turnover of quality personnel and difficult employment of new and skilled people is often an obstacle for the implementation of the EU projects. Incentives, such as clear career development paths, employment package, opportunities for international level networking, will be clearly considered by the project beneficiary at every project stage.

Past assistance experience shows as well that a properly organised training effort as opposed to ad hoc organised training is crucial. Therefore the training must be based on the priorities agreed with the beneficiary. But the actual delivery of the training must be primarily locally-based and concentrated to ensure maximum impact and to avoid disruption to other functions of the beneficiary institution. Training delivery is more efficient if it comprises a) structured seminars, b) strategic mentoring services for key officials and c) peer learning activities to ensure coherence and value from knowledge and skills acquired through the various capacity building activities.

Right combination of expertise is also important for project management. The combination of experts under the ongoing technical assistance project (old Member States and new Member States and Potential Candidate Countries) has proved to be effective in blending tradition, innovation and quick adaptability to meet the needs of an emerging market economy.

4. Indicative Budget (amounts in €)

ACTIVITIES		SOURCES OF FUNDING													
		IB	INV	TOTAL EXP.RE		IPA COMMUNITY CONTRIBUTION		NATIONAL CONTRIBUTION				PRIVATE CONTRIBUTION			
				EUR		EUR	%	Total	%	Central	Regional/ Local	IFIs	EUR	%	
				(a)=(b)+(c)+(d)	(b)			EUR		EUR		EUR		EUR	
								EUR		EUR		EUR		EUR	
								(c)=(x)+(y)+(z)		(x)	(y)	(z)	(d)		
Contract 1	x			800,000	800,000	100.00%									
				800,000	800,000	100.00%									
				800,000	800,000	100%		0	0	0	0	0	0	0	0

Amounts net of VAT

The IPA contribution will be no more than 800,000 EUR. GTZ will have to cover all costs, related to the implementation of the project, in excess of the 800,000 EUR provided by the IPA.

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## 5. Indicative Implementation Schedule (periods broken down per quarter)

Contracts	Start of Tendering	Signature of contract	Project Completion
Contract 1	Not applicable	Q4 2009	Q3 2011

## 6. Cross cutting issues:

### 6.1 Equal Opportunity

There is extensive equal opportunity legislation in Montenegro.. The proposed project will ensure that the internal policies, structure or operating procedures of the beneficiary conform with or promote equal opportunity.

The SAI has an equal opportunity policy with respect to recruitment and promotion. This is demonstrated by the fact that inside the SAI many positions at all levels are held by female staff.

### 6.2 Environment

Environment protection legislation in Montenegro is comprehensive and is going through a process of harmonisation with the EU acquis. The proposed project will give due cognisance to environmental issues.

Generally, introducing independent auditing of IPA funds will increase environmental protection.

### 6.3 Minorities

There are current legislative provisions for the protection of minority rights. The proposed project will make sure that the internal policies, structure or operating procedures of the beneficiary will conform with or promote minority issues.

## **ANNEXES**

**Annex 1- Log frame in Standard Format**

**Annex 2- Amounts contracted and Disbursed per Quarter over the full duration of Programme**

**Annex 3 - Reference to laws, regulations and strategic documents:**

**Annex 4- Description of the Institutional framework**

**Annex 5- Details per EU funded contract**

**ANNEX 1: Logical framework matrix in standard format**

LOGFRAME PLANNING MATRIX for Project Fiche	<p>Programme name and number: <b>Strengthening the State Audit Institution in Montenegro (2009/021-170)</b></p> <p>Contracting period: 2 years from the date of conclusion of the FA</p> <p>Disbursement period: one year from the final date for execution of contracts</p> <p>Total budget : 800.000 €</p> <p>IPA budget:: 800.000 €</p>	
<p><b>Overall objective</b></p> <p>Effective verification of the functioning of the management and control systems for the EU and public funds in Montenegro</p>	<p><b>Objectively verifiable indicators</b></p> <ul style="list-style-type: none"> <li>- DIS Accreditation maintained</li> <li>- Annual Audit activity report</li> <li>- Annual opinion</li> <li>- Opinion on the Statement of expenditures submitted to the Commission by the NAO</li> <li>- NAO's follow up activities -- improvements to the management and control systems and/or adjustment of payments</li> </ul>	<p><b>Sources of Verification</b></p> <p>EU Commission decision</p> <p>Independent Audit Reports</p> <p>NAO Décisions</p>
<p><b>Project purpose</b></p> <p>To strengthen the operational capacity of the State Audit Institution of Montenegro</p>	<p><b>Objectively verifiable indicators</b></p> <ul style="list-style-type: none"> <li>• Compliance assessment and Audit opinion on compliance with international standards on auditing (risk assessment, audit materiality and sampling), drawn up by an external auditor, functionally independent of Audit Authority</li> <li>• Financial and institutional independence achieved and legislatively defined</li> </ul>	<p><b>Sources of Verification</b></p> <p>Independent Audit Reports</p> <p>AA Law/amendment to law</p>
<p><b>Results</b></p> <ol style="list-style-type: none"> <li>1. Audit process, including planning, implementation and reporting aligned with EU best practice</li> <li>2. Established Audit Authority and ensured know how on auditing IPA funds,</li> </ol>	<p><b>Objectively verifiable indicators</b></p> <ul style="list-style-type: none"> <li>• institutional structure established</li> <li>• Appointment of auditors in the Audit Authority</li> <li>• At least 3 fully trained auditors with thorough knowledge of system auditing and auditing of operations, which will be capable of performing audits of all IPA implementing structure institutions, final beneficiaries and final recipients and issuing an Audit opinion on effectiveness of Management and Control System, correctness of statement of expenditure and legality and regularity of underlying transactions</li> </ul>	<p><b>Assumptions</b></p> <p>Long-term commitment of Montenegro government to set up and maintain the IPA implementing structures and support the introduction of DIS and proper management of the EU funds</p> <p><b>Assumptions</b></p> <p>Commitment of the SAI to ensuring correct, uniform application of new audit procedures</p> <p>Commitment for setting up AA indicated by:</p> <ul style="list-style-type: none"> <li>• Adoption of proper legal basis</li> <li>• Sustained Human and Financial Resource allocation to such structure (including translators/interpreters)</li> </ul>

Activities	Means	Costs	Assumptions
<p><b>1. Activities related to Result 1</b></p> <ul style="list-style-type: none"> <li>• Improvement of Audit planning process and introduction of risk assessment model in planning.</li> <li>• Drafting of Manuals for System Audit and Audit of Operations.</li> <li>• Defining of Sampling Method and Assurance model for System Audits.</li> <li>• Drafting of Audit reporting manual and Audit opinion model</li> </ul>	<ul style="list-style-type: none"> <li>• Yearly audit plan established and Risk assessment model introduced in the audit of IPA funds</li> <li>• Sampling methods and Assurance model for System Audits introduced</li> <li>• Manuals on System Audit and Audit of Operations adopted</li> <li>• Reporting on IPA funds-related audit introduced.</li> </ul>	<p>The overall estimate is in Euros. EU contribution: 800.000 €; Montenegro contribution: 0</p>	<ul style="list-style-type: none"> <li>• Retention of and upgrading of investments, i.e. training of staff and IT systems.</li> </ul> <p>Full commitment of the parties involved to implement the project. The SAI has incumbent staff to implement the project.</p>
<p><b>2. Activities related to Result 2</b></p> <ul style="list-style-type: none"> <li>• Assessment of the legislative basis and the needs for changes regarding the institutional establishment of the Audit Authority</li> <li>• Development of training programmes</li> <li>• Delivery of training to auditors on new planning procedures, new System Audit procedures, and new Audit of Operations procedures</li> </ul>	<p>One indirect centralised management agreement with GTZ.</p>		

**Annex 2- Amounts in EUR contracted and Disbursed per Quarter over the full duration of Programme**

<b>Contracted</b>	<b>Q4 2009</b>	<b>Q1 2010</b>	<b>Q2 2010</b>	<b>Q3 2010</b>	<b>Q4 2010</b>	<b>Q1 2011</b>	<b>Q2 2011</b>	<b>Q3 2011</b>
Contract 1	800,000							
<b>Cumulated</b>	<b>800,000</b>			<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Disbursed</b>	<b>Q4 2009</b>	<b>Q1 2010</b>	<b>Q2 2010</b>	<b>Q3 2010</b>	<b>Q4 2010</b>	<b>Q1 2011</b>	<b>Q2 2011</b>	<b>Q3 2011</b>
Contract 1	240,000		240,000			240,000		80,000
<b>Cumulated</b>	<b>240,000</b>		<b>480,000</b>			<b>720,000</b>		<b>800,000</b>

Contract 1 will be an indirect centralised management agreement with GTZ.

**Annex 3 - Reference to laws, regulations and strategic documents:**

Stabilisation and Association Agreement (SAA)

European Partnership and Action Plan for the Implementation of the European Partnership

Montenegro 2008 Progress report

MIPD 2009-2011

National Programme for Integration of Montenegro in the EU for the period 2008-2012

Constitution of Montenegro, Official Gazette of Montenegro No.1/2007;

The Law on the Implementation of Constitution of Montenegro (Official Gazette No. 1/2007)

Law on Accounting and Auditing, Official Gazette of Montenegro No. 69/05

Law on Budget

Law on the State Audit Institution (Official Gazette of the Republic of Montenegro, № 27/06, 78/06 and 17/07)

Rules of Procedure of the State Audit Institution (Official Gazette of the Republic of Montenegro, № 50/07)

Instructions on the Methodology of work of the State Audit Institution (Official Gazette of the Republic of Montenegro, № 02/05)

Code of Ethics of the State Officers and Employees in the State Audit Institution

Method of passing through the examination to become a State Auditor (Official Gazette of the Republic of Montenegro, № 23/07)

Programme for passing through the examination to become a State Auditor (Official Gazette of the Republic of Montenegro, № 44/06)

Regulations of official identity card of authorized person of the State Audit Institution (Official Gazette of the Republic of Montenegro, № 45/08)

COUNCIL REGULATION (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA)

COMMISSION REGULATION (EC) No 718/2007 of 12 June 2007 implementing Council Regulation (EC) No 1085/2006 establishing an instrument for pre-accession assistance (IPA)

#### **Annex 4- Description of the Institutional framework**

The State Audit Institution SAI was established by the Law on State Auditors Institution in Montenegro adopted by the Parliament of the Republic of Montenegro in April 2004.

The Institution is an autonomous and independent state authority. Audited entities are the authorities and organization managing the budget and the property of the State and of the local self-government units, the funds, the Central Bank of Montenegro and other legal entities in which the State holds a share (hereinafter referred to as: audited entity).

The Institution shall examine the regularity, effectiveness and efficiency of the business operation of the audited entity. The audit of regularity includes supervision of compliance of business operations with regulations and general standards on collecting public revenues, financing expenditures, using and managing property, fulfilling commitments, and book-keeping and documenting revenues and expenditures as well as property and management of economic activities.

The audit of effectiveness shall examine to what extent the planned goals have been achieved.

The audit of efficiency shall examine whether the planned goals have been achieved with minimum investment funds.

When adopting the Republic's budget and the Financial Statement of the Republic's budget, the Institution shall submit to the Parliament of the Republic of Montenegro the overview of its findings on the budget and state of property, pointing out the causes and consequences of any major faults and irregularities and proposing measures for their elimination.

In accordance with Law on State Auditors Institution, the Institution shall audit documents and activities of the audited entity, which have or may have financial effect on: revenues and expenditures, state property, debt level, granting of guarantees and supe-guarantees, efficient use of funds allocated to the audited entities.

In regards to audited entities which have been given credits, guarantees, or other sureties by the State, the Institution may examine whether appropriate measures were taken in order to avoid any detrimental consequence to the State.



## Annex 5- Details per EU funded contract

Regarding the previous experience of the partnership with the German Organization for Technical Cooperation (GTZ), the implementation of this project will be realized through an indirect centralised management agreement (conferral of management) with GTZ.

The selection of the method of implementation and the delegatee body is based on the following justification:

- Article 54(2)(c) of the Financial regulation authorises and regulates the indirect centralised management as a legitimate instrument for project/funds management. The main principles are described in the Code of Conduct adopted on 15 May 2007 to enhance complementarity and the division of labour amongst EU donors (<http://europa.eu/scadplus/leg/en/lvb/r13003.htm>)
- Only 2 of the accredited agency are active in Montenegro: ADA and GTZ. The donor cooperation dialogue in Montenegro (meetings held on 08/04/08, on 04/06/09 and on 17/11/08) have not so far resulted into the identification of another member state that has been interested in taking active measures in the project sector.
- GTZ has exclusive experience in Montenegro in establishing and building the capacity of the State Audit Institution of Montenegro through a previous project funded from German budget. The president of SAI has expressed high satisfaction with the services provided by GTZ so far and strong willingness to continue this cooperation.
- GTZ will continue providing financial support to SAI at bilateral level in parallel to this IPA project. The amount of 0.8 MEUR for the period 2009 – 2010 is dedicated to GTZ target-orientated "Budget management and effective financial control/ State Audit Institution" measure. Thus the two principles of concentration of funds and complementarity of actions and funds will be applied. GTZ has been commissioned by the German Ministry for Economic Cooperation and Development (Bundesministerium für Wirtschaftliche Zusammenarbeit und Entwicklung -BMZ) with the Programme "Strengthening of external Audit in Montenegro", of which this project will form part. Thus, the IPA 2009 project will contribute financially to the GTZ/BMZ Programme.
- GTZ has already adopted required procedures and standards in compliance with the regulations of the European Commission. Thus the implementation of all planned activities and the achievement of the project goals, along with the technical organisation of the work and reporting, will be ensured.

Additionally, the capacity of the EC Delegation as a contracting authority, the number of projects funded under IPA (2007, 2008 and 2009) as well as the fact that the introduction of DIS in managing the EU funds will not be achieved before 2010 were taken into consideration while selecting the method of implementation.

The project will be managed by a project manager, whose profile includes:

- Master degree in economics, business administration or related discipline;
- Excellent knowledge of auditing cycle (at least 10 years of professional experience in the field)

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- Previous management experience (at least 7 years) and proven record in project management, mobilisation of expertise, reporting (manager of at least one project);
- Good leadership skills;
- Excellent command of English.

The key tasks of the Project manager include:

- Overall project supervision and coordination to ensure high quality outputs and results;
- Mobilising short- and medium term experts and approval of their performance;
- Executing administrative tasks (i.e. preparation of reports, side letters etc.)
- Communication with the beneficiary and the Contracting authority;
- Participation in the regular Steering Committee meetings.

The Project manager has to be based primarily in the beneficiary country. Along, with him, the Contractor will have to ensure the needed human resources: senior and junior experts, who will implement the particular project activities.

One Steering committee (SC) will be established to review the project progress. It will comprise of representatives of the beneficiary and the Contracting authority and will be supported by the Contractor. The SC may invite other organisations to attend meetings where this will bring added value to discussion and outcomes of the Project. Its main functions are to:

- assess Project progress and guide it strategically;
- jointly discuss any critical points or bottlenecks for further project implementation;
- propose and discuss remedy actions to be taken in order to tackle problems;
- issue recommendations affecting timing, cost or Project contents;
- assess the performance of the contractors and to comment and/or discuss the contractors' reports.

The SC will meet at least every six months; the first meeting will be held upon the submission of the Inception Reports by both contractors.

**Note to the file**

<b>Subject</b>	Modification of Project Fiche 10 – IPA 2009
<b>Title of the project:</b>	<b>Strengthening the State Audit Institution in Montenegro</b>
<b>Programme code / budget line:</b>	<i>IPA 2009 – Component I</i>
<b>Contractor/beneficiary</b>	GTZ
<b>Budget (€)</b>	800,000

<b>Purpose of the contract</b>	The purpose of the project is to support the capacity of the State Audit institution and the Audit Authority to implement their functions of external auditors and ensure effective control on the effectiveness and lawfulness of the public funds, including the IPA funds in case of decentralised management.
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<b>Background information</b>	<p>There is a need for adjusting the project fiche as follows:</p> <ul style="list-style-type: none"> <li>▪ The current project fiche does not include co-financing by GTZ. However, GTZ, which is the Delegatee body for this contract, will provide 37.383 EUR to cover their administrative costs, related to the implementation of the project. This amount has to be considered as co-financing, provided by GTZ through the BMZ-supported Programme "Strengthening of External Audit in Montenegro".</li> </ul> <p>The amount of 37.383 EUR, to be provided by GTZ as their contribution, will cover a part of the administrative costs of GTZ, related to the implementation of the project. The GTZ internal standards and agreement with the Bundesministerium für Wirtschaftliche Zusammenarbeit und Entwicklung – BMZ, involves administrative costs of 12% of the direct costs of the approved programmes. Further to the EU standards, no more than 7% of the total direct costs can be covered by the IPA Contribution. Thus, the difference of 5% will be covered by GTZ, which have to be considered as their contribution to the project.</p> <ul style="list-style-type: none"> <li>▪ For taxation purposes GTZ has to include this IPA project in the framework of the BMZ-supported Programme "Strengthening of External Audit in Montenegro". Otherwise the IPA contribution will be considered as taxable revenues according to German law.</li> </ul> <p>This approach, based on concerted actions in one sector, is already reflected in the Project fiche (Annex 5) as being one</p>
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