



# **Budget Accounting and Financial Reporting in Montenegro and Public Sector Accounting Reform**

**Ulcinj, June 2024**

- **Population: 617.213**
- **Territory: 13.812 km<sup>2</sup>**
- **25 municipalities**
- **50 municipalities budget users**
- **130 local public enterprises**
- **90 direct budget users**
- **350 indirect budget users  
(schools, hospitals, museums...)**
- **50 SOE-s**



## Accounting Basis

- ▶ Budget accounting in Montenegro is organized on a modified cash basis, which implies that receipts and expenditures are recorded on a cash basis, while assets and liabilities are recorded on an accrual basis.
- ▶ Planning and execution of the budget for the central government bodies, state insurance funds and local self-government units is organized at the level of functional, administrative, economic and program classification.

# Budget classification

## ▶ **Economic classification:**

- ▶ – class.....0
- ▶ – category.....00
- ▶ – group.....000
- ▶ – synthetics.....0000
- ▶ – analytics.....00000
- ▶ – subanalytics.....000000

# Budget classification

9 classes for receipts expenditures, assets and liabilities:

- ▶ Class 0 – Non financial assets
- ▶ Class 1 – Financial assets
- ▶ Class 2 – Liabilities
- ▶ Class 3 – Net assets
- ▶ Class 4 – Expenditures
- ▶ Class 5 – Corrective account
- ▶ Class 7 – Receipts
- ▶ Class 9 – Corrective account

Planning is mandatory by class, category, group and synthesis, while the execution of the budget is to the level of analysis and sub-analysis.

# Budget classification

- ▶ **Functional classification is in accordance with COFOG:**
- ▶ 01 – General public services
- ▶ 02 – Defence
- ▶ 03 – Public order and safety
- ▶ 04 – Economic affairs
- ▶ 05 – Environmental protection
- ▶ 06 – Housing and community amenities
- ▶ 07 – Health
- ▶ 08 – Recreation, culture and religion
- ▶ 09 – Education
- ▶ 10 – Social protection

# Financial reporting

- ▶ Financial reporting - quarterly and annually, with the possibility for the Minister of Finance to request special reports from budget users.
- ▶ The financial year ends on December 31, with the possibility of using funds on commercial accounts until the end of January of the following year
- ▶ **Financial statements:**
- ▶ Cash Flow Statement- economic classification
- ▶ Cash Flow Statement - functional classification
- ▶ Statement on liabilities



# Financial reporting

- ▶ Consolidated report of budget user that includes public institutions
- ▶ Report on consolidated budget spending
- ▶ Statement on the use of funds after the end of the fiscal year
- ▶ Report on the use of funds of the budget reserve (which is used for unplanned and insufficiently planned expenses)
- ▶ **Quarterly financial reports** - by the 15th of the first month of the following quarter
- ▶ **Annual financial reports** - by the end of February of the following year
- ▶ **The Law on Final Budget Account** is submitted to the Government by the end of May, and the Government submits it to the Parliament by the end of September



# The Law on Final Budget Account

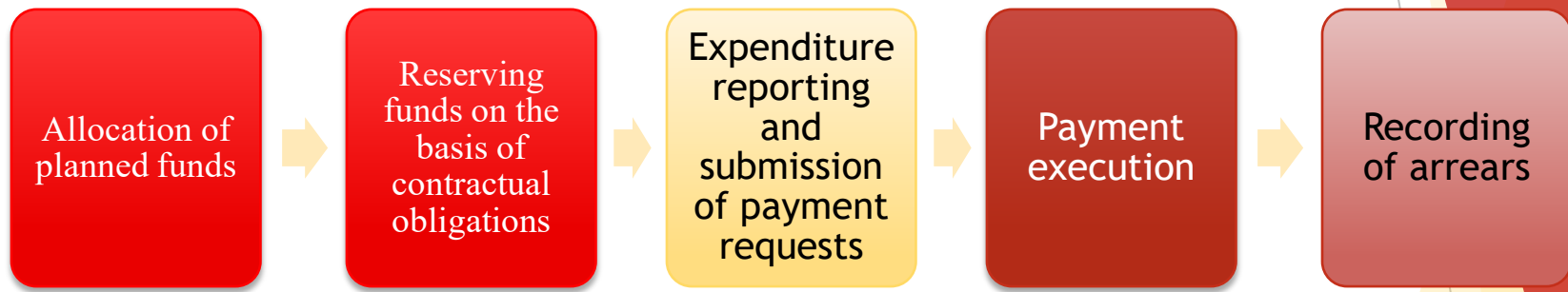
## ▶ **Content:**

- ▶ 1) the opening and closing balance of the Single Treasury Account;
- ▶ 2) review of deviations from the planned amounts;
- ▶ 3) report on loans taken;
- ▶ 4) report on expenditure of budget reserves;
- ▶ 5) report on guarantees given during the fiscal year;
- ▶ 6) report on capital projects;
- ▶ 7) report on the implementation of the program budget;
- ▶ 8) report on the state debt and the guarantees given;
- ▶ 9) report on tax and non-tax claims;
- ▶ 10) report on receipts and expenditures of public institutions that are not included in the Single Treasury Account;
- ▶ 11) report on the state of outstanding liabilities that do not have the character of loans

# Single Treasury Account

- ▶ **All transactions take place through the Single Treasury Account**
- ▶ **Single Treasury Account - all accounts where government money is recorded**
- ▶ **The Ministry of Finance is the only one authorized to open state bank accounts**
- ▶ Budget users cannot have accounts with commercial banks, with the exception of public institutions that have the status of legal entities, accounts for payments abroad and inflows from abroad (transfer accounts), donations, IPA and loans, which are part of the Single Treasury Account

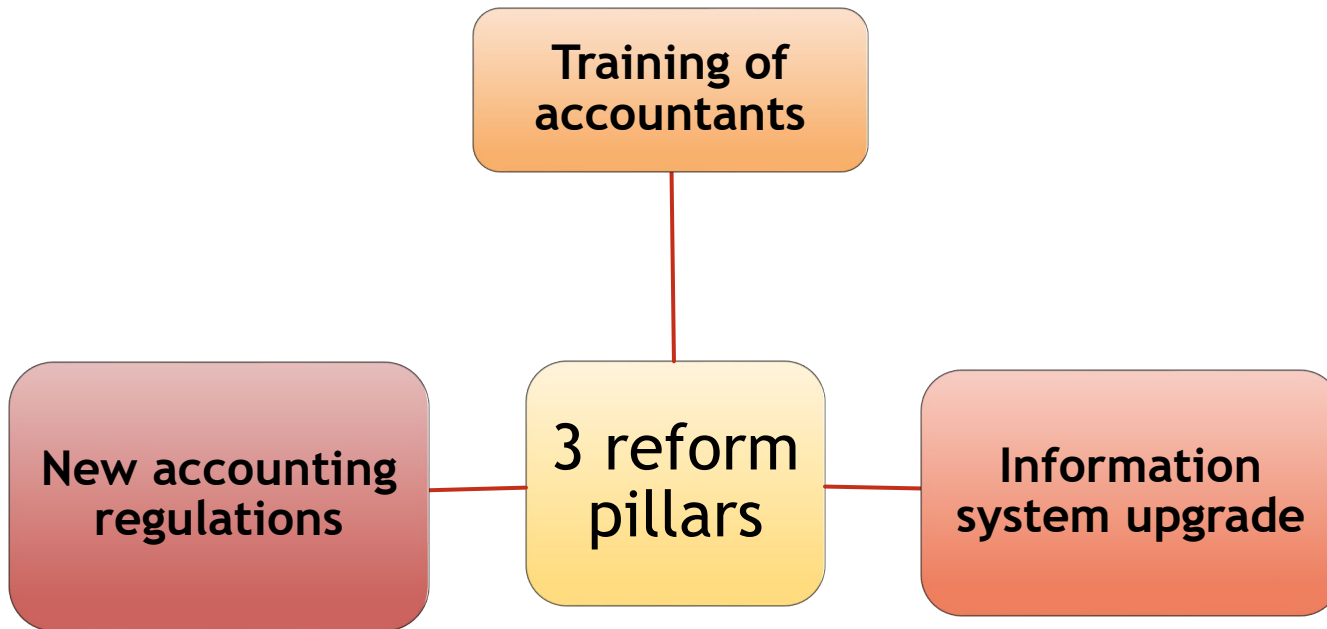
# Treasury General Ledger



## Reasons for Accounting Reform

- ▶ The existing accounting system, based on a modified cash basis, only partially satisfies the information requirements
- ▶ Part of the PFM reform program
- ▶ Changes in organizing and managing the public sector
- ▶ Greater reliability and comparability of information and raising the level of fiscal responsibility
- ▶ Comprehensive information on the full costs, efficiency and economy of program activities
- ▶ Strengthening the system of internal control and internal reporting
- ▶ **Strategy for public sector transition to accrual accounting** was adopted in 2015

# Strategy for public sector transition to accrual accounting



# Reform process

Strategy for public sector transition to accrual accounting

Action plan for the Strategy implementation

Trainig of accountants in public sector (CEF/CIPFA)

Law on Public Sector Accounting

Bylaws development

National trainig of accountants

Publishing of bylaws

Accounting IT system upgrade

# New accounting regulations

- ▶ **Law on Public Sector Accounting** was adopted in 2019, with delayed implementation until 2027, except for the provisions concerning the training and certification of accountants
- ▶ Defined key accounting principles and general accounting policies
- ▶ **Bylaws:**
  - ❑ **Chart of accounts**
  - ❑ **Rulebook on accounting methodology**
  - ❑ **Rulebook on financial reporting**
  - ❑ **Rulebook on the central and municipal register of the public sector**
  - ❑ **Rulebook on the content of business books**
  - ❑ **Rulebook on the method of training and certification of accountants**
- ▶ **Manuals with accounting examples**



# New Accounting Methodology

- ▶ Definition of entities that are obliged to apply the methodology
- ▶ Concept, recognition, valuation and classification of assets, liabilities and net assets, income and expenses, receipts and expenditures
- ▶ Effects of changes in accounting policies, accounting estimates and correction of errors
- ▶ Accounting treatment of events after the financial statement date
- ▶ Preparation of opening balance
- ▶ Useful life and depreciation rates of tangible and intangible assets
- ▶ The manual provides more detailed guidelines for accounting records of transactions with examples of postings

# New Chart of Accounts

- ▶ Class 0 - Non Financial Assets
- ▶ Class 1 - Financial Assets
- ▶ Class 2 - Liabilities
- ▶ Class 3 - Net Assets
- ▶ Class 4 - Expenditures
- ▶ Class 5 - Expenses
- ▶ Class 6 - Revenues
- ▶ Class 7 - Receipts
- ▶ Class 8 - Off balance sheet assets and liabilities

# News in financial reporting

- ▶ Register of public sector entities for reporting and consolidation purposes
  - ▶ The central registry in the Ministry of Finance and the municipal registry in the local self-government unit
- ▶ Defined forms for registration, changes and deletion from the Register
- ▶ Reporting process, deadlines, structure and statements of financial reports
- ▶ Statement 1 - Balance sheet,
- ▶ Statement 2 - Income statement,
- ▶ Statement 3 - Report on changes in net assets,
- ▶ Statement 4 - Statement of cash flows,
- ▶ Notes that are an integral part of financial statements

# Training of accountants in public sector

- ▶ Started in 2016
- ▶ 3 cycles of training under the CIPFA program (120 accountants trained)
- ▶ Domestic lecturers from the public sector, universities, and from the Institute of Accountants
- ▶ In 2021, the national training of accountants began, according to the program developed by the Ministry of Finance
- ▶ 3rd training cycle in progress
- ▶ Workshops and conferences for accountants

# Training and Certification Program

- ▶ It is implemented in cooperation with the Human Resources Administration
- ▶ The exam consists of a written and an oral part
- ▶ 3 subjects:
  - ❖ **National legislation** (state regulation and legal system, budget accounting, financial units of local self-government, internal audit, public procurement, data protection)
  - ❖ **Financial accounting** (fundamentals of IPSAS)
  - ❖ **Management accounting** (cost accounting, budgeting, financial analysis)
- ▶ The examination is conducted by the Examination Commission of the Ministry of Finance
- ▶ **The Public Sector Accountant Certificate** is issued by the Ministry of Finance

# Information system upgrade

- ▶ **GAP analysis** of the functionality of the existing accounting information system and the functionality required by the new accounting regulations
- ▶ It identified three upgrade options
- ▶ **Analysis of accounting processes** in the new information system and the possibility of connecting existing modules
- ▶ Preparation of the project assignment and publication of the public call

# Challenges and lessons learned

- ▶ Practical training of accountants for the application of new accounting regulations (workshops and on the job training, help desk)
- ▶ The need to expand administrative capacities in the MoF in order to respond to the demands of users in the first years of the reform implementation
- ▶ Expansion of administrative capacities in public sector entities
- ▶ A gradual approach to the introduction of new accounting categories is necessary
- ▶ Functionality of the accounting information system
- ▶ Compliance with statistical requirements
- ▶ Process monitoring and evaluation



*Accrual accounting needs to be  
viewed as a means rather than an  
end!*

*Thank you for your attention!*