

Pursuant to Article 74 paragraphs 1 and 5 of the Central Bank of Montenegro Law (OGM 40/10, 6/13, 70/17) and the Central Bank of Montenegro Statute (OGM 83/17, 3/20, 129/22), the Council of the Central Bank of Montenegro passed the following

**RULEBOOK
ON INTERNAL AUDITING OF THE CENTRAL BANK OF MONTENEGRO**

(No. 0101-2837-8/2021 of 28 April 2021, and no. 0101-726-4/2023 of 30 January 2023)

I. BASIC PROVISION

**Subject matter
Article 1**

This Rulebook shall govern in more detail the manner of conducting internal audit and reporting in the Central Bank of Montenegro: (hereinafter: the Central Bank) in accordance with internationally accepted internal audit standards.

II. DEFINITION, PURPOSE, MISSION, AND INTERNATIONAL STANDARDS

**Internal Audit
Article 2**

Internal Audit shall represent an independent and objective assurance and provision of advisory or similar service (hereinafter: advisory activity), which shall be aimed at adding value to and improving the operations of the Central Bank.

In the Central Bank, the internal audit activity shall be performed by an organisational unit whose scope, in accordance with the Central Bank's document on internal organisation, shall include the performance of these activities (hereinafter: the Internal Audit).

Internal Audit shall contribute to the achievement of the Central Bank's objectives by applying a systematic and disciplined approach to assessing and improving the effectiveness of the governance process, internal controls system, and risk management.

The adding of value referred to in paragraph (1) of this Article shall be achieved by providing objective and relevant assurance and contribution to the effectiveness and the efficiency of the governance process, risk management, and internal controls system.

Assurance, within the meaning of paragraph (4) of this Article, shall include objective examination of evidence for the purpose of ensuring an independent and objective assessment of adequacy, effectiveness, and efficiency of the governance process, risk management, and internal controls system.

Internal Audit purpose and mission Article 3

The purpose of the Internal Audit shall be to, performing a continuous and comprehensive monitoring of the Central Bank's operations, provide independent, objective, and reasonable assurance and advisory activity aimed at adding value and improving the Central Bank's operations.

Internal Audit mission shall be to improve and protect the Central Bank's values by providing objective assurance, advice and risk-based insights.

Conducting internal audit Article 4

Internal audit shall be conducted in accordance with the law, International Standards for the Professional Practice of Internal Auditing (hereinafter: the Standards), and other mandatory elements of the international internal auditing professional practices framework issued by the *Institute of Internal Auditors, the IIA Global*, the Central Bank's document on internal organisation, and this Rulebook.

III. INDEPENDENCE, OBJECTIVITY, POWERS, AND RESPONSIBILITY

Internal Audit independence Article 5

Internal Audit shall be independent in its activity, which particularly relates to determining the frequency and the subject of activity, objectives and the scope of internal audit, work procedures and methods, and reporting on the results of internal audit.

With a view to providing an appropriate level of Internal Audit independence necessary for the effective execution of internal audit activity, the chief internal auditor shall report on the internal audit activity directly to the Council of the Central Bank and the Audit Committee (line of functional reporting), and to the Governor (line of administrative reporting), and shall have direct access to the Audit Committee and the Governor for the purpose of discussing issues relevant for conducting internal audit.

Internal auditor may not:

- 1) have direct operational responsibility or power for any activity being audited,

- 2) introduce internal controls and other systems in the Central Bank, develop procedures, draw up documents or perform any other activity that may threaten his/her objectivity and judgment, including the following:
 - assessing business processes and activities for which he/she was responsible during the previous year of working in the Central Bank,
 - performing operational activities in other organisational units of the Central Bank;
 - initiating or approving financial transactions;
- 3) be accountable for presenting the factual situation and giving specific recommendations, opinions, and advice.

Exceptionally, where the internal auditors have been appointed to any commissions, work groups, committees, boards, and other, they may be members without voting rights. The chief internal auditor may perform specific activities and/or have responsibilities outside internal audit, provided that appropriate safeguards have been taken in order to limit the impairment to his/her independence or objectivity.

The internal auditor shall:

- 1) in the case of the impairment to the independence or objectivity, whether real or possible, notify the chief internal auditor;
- 2) show professional objectivity when collecting, assessing, and communicating information on the activity or procedure being examined;
- 3) assess all available and relevant facts and circumstances with due professional care;
- 4) take necessary precautionary measures to avoid the influence of his/her own or others' interests when forming the audit opinion.

Before the commencement of the audit, the internal auditors shall make a declaration of independence, which shall make an integral part of the documentation of the audit in question.

Internal Audit powers Article 6

Internal Audit shall be empowered to perform the audit of systems, business processes, projects, and activities in the Central Bank.

Internal Audit shall have the right to an unlimited and free access to all employees, data, information, documents, assets, and applications of the Central Bank, required for performing the audit and other activities within its scope.

Internal auditors must possess the knowledge, skills, and other competences necessary for performing the internal audit activity in accordance with this Rulebook, and they shall have the right to and the obligation of training for the purpose of improving their knowledge and competences.

The Internal Audit may, as appropriate, use the assistance, support, and cooperation of the employees in the organisational unit being audited, the employees of other organisational units, and it may propose to the Governor to hire experts whose special knowledge and skills are needed during the auditing process.

The person coordinating, integrating, and directing the activities in the core organisational unit and the unit within the core organisational unit (hereinafter: the head of the organisational unit) and the employees in those organisational units shall, at the Internal Audit's request and within the required time limit, submit all information and explanatory information, as well as the copies of data and documents needed for conducting the audit and other activities within their scope in hard copy, electronic or other form.

Chief internal auditor Article 7

The chief internal auditor shall:

- draw up a proposal for the internal audit strategic plan (hereinafter: the strategic plan) and the internal audit annual plan (hereinafter: annual plan);
- monitor the changes in Central Bank activity, risks, operations, programs, systems, and controls, and, as appropriate, initiate alterations to the annual plan;
- ensure that the planned activities from the annual plan are executed (assurance activities and advisory activities), including the set objectives and scope;
- approve the audit work programme;
- approve and sign the Audit Report, and make sure that the internal audit results with the conclusions, findings, and recommendations are delivered to the parties to which the recommendations relate;
- report to the Governor, Audit Committee, and the Council of the Central Bank in the case of a lack of resources necessary for auditing;
- report to the Governor, Audit Committee, and the Council of the Central Bank on each significant change in the realisation of the internal audit plan;
- submit work reports with special emphasis on critical or high-risk issues that have been identified and that require immediate attention;
- monitor the implementation of Internal Audit recommendations and periodically report to the Governor and the Audit Committee on the activities, i.e. recommendations that were not implemented within the set time limits and in a manner of implementation specified in the action plan;
- make sure that Internal Audit employees collectively possess or acquire knowledge, skills, and other competences required for performing Internal Audit activity in accordance with this Rulebook;
- develop a programme for securing and improving the quality of Internal Audit activity and monitor its efficiency;
- ensure that the principles of integrity, objectivity, confidentiality, and professionalism are applied and supported;

- obtain expert opinion and assistance in cases where internal auditors lack knowledge, skills or other competences needed for conducting the whole or a part of the auditing process;
- establish procedures for directing the Internal Audit functioning;
- ensure the internal audit's compliance with the Standards.

Internal Audit responsibilities Article 8

Internal Audit shall be responsible for professional and expert performance of its activity.

Internal Audit shall not be responsible for the development or application of new systems in the Central Bank, but may provide advice upon the introduction of new or the expansion of existing systems, to see if appropriate controls have been included in that system, if the appropriate testing of the system functioning has been performed, and if the needs of system users have been satisfied, for the purpose of avoiding additional costs, or subsequent detection of deficiencies in the system.

Data protection Article 9

Internal Audit employees shall be responsible for the protection and storage of data, information, and documents which they have obtained and used during the auditing process, in accordance with the regulations governing the protection and security of data and information and in accordance with general Central Bank acts.

IV. SCOPE, SUBJECT, AND TYPES OF INTERNAL AUDIT

Audit scope and subject Article 10

The scope of the audit shall particularly include the collection and objective examination of evidence for the purpose of providing an independent assessment of the adequacy, efficiency, and effectiveness of the governance process, risk management, and internal controls system.

Internal Audit shall assess whether:

- the risks pertaining to meeting the Central Bank's strategic objectives have been adequately recognised and assessed, and whether they are being adequately managed,
- the activities of the heads of the organisational units and employees are in accordance with the regulations, policies, procedures, and standards of the governance process,
- the operating results are consistent with the set objectives,
- the activities are performed, or being performed efficiently and effectively,

- the work processes and systems that ensure compliance with policies, procedures, and regulations, and that can have a significant impact on the Central Bank's operations are in place,
- the information is reliable and of integrity, and whether
- the Central Bank's assets have been acquired in a cost-effective manner, efficiently used and adequately protected.

The subject of the audit may include systems, work processes, projects, and activities performed and/or introduced in the Central Bank, as well as the manner of their organisation, including the working bodies formed by the Governor (work group, commission, committee, board).

Internal Audit may review statistical data and information prior to their submission to the international financial institutions within special financial arrangements.

Types of internal audit Article 11

Pursuant to the manner of implementation in the Central Bank, the internal audit may be regular or extraordinary.

Regular audit shall be conducted in accordance with the annual plan, while extraordinary audit shall be conducted upon the Governor's request.

In terms of the scope, audit may be comprehensive or targeted.

Internal audit may, upon the Governor's request, conduct the review of the specific subject and state the facts from the subject of the review, without giving opinions and recommendations.

Advisory activity Article 12

Internal Audit shall perform advisory activities for the purpose of improving the risk management, adding value, and improving Central Bank operations.

Advisory activity shall be included in the annual plan.

Advisory activity may be performed at the proposal of the chief internal auditor, and at the Governor's request.

V. INTERNAL AUDIT PLANS

V. Internal Audit plans Article 13

Internal Audit activities shall be planned and performed in accordance with the strategic plan and the annual plan.

Strategic plan Article 14

Strategic plan shall specify, in particular, the following:

- 1) internal audit objectives and tasks, and internal audit priorities;
- 2) internal audit risk assessment methodology for business processes in the Central Bank;
- 3) periodicity, i.e. the frequency of internal audit activities;
- 4) audit scope as per the specific areas of Central Bank operations;
- 5) elements needed for identifying and determining the priority areas to be included in the annual plan.

As a rule, the strategic plan shall, be adopted for a three-year period, and it shall be revised in terms of risks and scope of audit at least once a year.

The chief internal auditor shall draw up a proposal of the strategic plan and submit it to the Governor after obtaining the Audit Committee's opinion.

The Council of the Central Bank shall adopt the strategic plan by the end of the year in which the period for which the previous strategic plan was adopted expires.

Annual plan Article 15

Annual plan must be based on the strategic plan and the risk assessment.

Annual plan shall include the following:

- 1) audit objectives and subject,
- 2) areas of the Central Bank operations with particularly prominent risks,
- 3) areas of the Central Bank operations which will be audited, along with set priorities,
- 4) dynamic and resources needed to conduct the audit, and
- 5) time limits for the execution of the planned activities.

Annual plan shall set the priorities and the area of the Central Bank operations on the basis of: risk assessment performed by the Internal Audit, risk assessment performed by the heads of the organisational units, as well as based on other relevant criteria, or information and risk factors.

When setting the priorities referred to in paragraph (3) of this Article, the following shall be taken into account: the materiality of identified risks and their impact on the achievement of the Central Bank objectives, the Central Bank policy, scope of activity of internal and external audit, as well as the findings of the previous audits.

Annual plan may be altered in case of the change in the circumstances based on which it was drawn up, which relate to the changes in the risk assessment, organisational changes, and the like.

The chief internal auditor shall draw up a proposal of the annual plan and submit it to the Governor after obtaining the Audit Committee's opinion. The Council of the Central Bank shall adopt the annual plan no later than 31 December of the current year for the next year.

VI. AUDIT PROCEDURE AND METHODS

Order to conduct an audit Article 16

The audit shall commence by issuing an order to conduct an audit in accordance with the annual plan or upon the Governor's request.

The order referred to in paragraph (1) of this Article shall be prepared and signed by the chief internal auditor.

The order to conduct an audit shall contain: the name of the organisational unit which will be audited, the subject and scope of the audit, the audit team, and the planned duration of the audit.

The order to conduct a regular audit shall be delivered to the head of the organisational unit that will be audited at least five days before the audit commences.

The order to conduct an extraordinary audit shall be delivered to the head of the organisational unit that will be audited at least one day before the audit commences.

The chief internal auditor shall inform the Governor of the commencement of the audit by delivering the notification and the copy of the order to conduct an audit.

The chief internal auditor shall deliver a copy of the order to conduct an audit to the competent Vice-Governor, or the Executive Director in order to inform them about the commencement of the audit in the areas within their competences.

A copy of the order to conduct an audit referred to in paragraphs (6) and (7) of this Article shall be delivered to the head of the organisational unit that will be audited.

Initial meeting
Article 17

The chief internal auditor shall organise a meeting with the head of the organisational unit that will be audited (the initial meeting), in order to inform him/her about the subject and scope of the audit, planned duration of the audit, and the audit team.

Audit methods
Article 18

In performing the audit activities, the Internal Audit shall apply the following methods:

- 1) preliminary examination,
- 2) generation of activity flow chart,
- 3) discussion/ interview,
- 4) Internal Controls Questionnaire,
- 5) self-assessment of internal controls - assessment by the head of the organisational unit being audited regarding the efficiency of the established internal controls in the work processes of the organisational unit,
- 6) sampling,
- 7) analytical procedures,
- 8) on-site observation,
- 9) testing, and
- 10) other methods for which it is assessed that they may contribute to achieving the objectives and the tasks of audit.

Audit Work Programme
Article 19

Within the meaning of this Rulebook, the Audit Work Programme shall be a document comprising the activities for conducting the audit, through which the audit objectives are achieved.

The audit team shall draw up the risk-based Audit Work Programme on the basis of preliminary examination and all available information and documentation.

The Audit Work Programme shall be approved by the chief internal auditor.

Subject to the approval of the chief internal auditor, during the audit, the Audit Work Programme may be altered in terms of new tasks, examinations, reviews, and analyses.

The Audit Work Programme drawn up for advisory activity purposes may vary in form and content, depending on the nature of the activity.

Audit work documentation
Article 20

Audit work documentation shall serve as the basis for drawing up the Audit Report (hereinafter: the Report) as well as the Internal Audit quality assessment.

The work documentation referred to in paragraph (1) of this Article shall include the documentation collected and generated during audit planning, examination and valuation of adequacy and effectiveness of the internal controls system, application of audit methods during the audit, obtaining information, drawing up conclusions, reporting, and follow-up of the implementation of recommendations.

Wrap-up meeting
Article 20a

Prior to submitting the draft Report referred to in Article 22 of this Rulebook, the Internal Audit shall organise a wrap-up meeting with the head of the audited organisational unit and, as appropriate, the heads of other organisational units for the purpose of presenting the findings of the audit.

The audit findings shall be delivered to the heads of the organisational units referred to in paragraph (1) of this Article, five days before the wrap-up meeting.

Termination of the internal audit
Article 21

When performing audit activities, the Internal Audit shall assess the possibility of fraud risk, as well as the manner of fraud risk management.

Where indicators of fraud are detected during the audit, the audit procedure shall be terminated, and the chief internal auditor shall, without delay, be notified thereof.

In the case referred to in paragraph (2) of this Article the chief internal auditor shall, without delay and in writing, notify the Governor and the Audit Committee.

VII. REPORTING

Draft Report
Article 22

A draft Report shall be draw up on the conducted audit, and it shall be signed by the chief internal auditor and the audit team.

The draft Report shall be delivered to the head of the audited organisational unit, and the excerpt from the draft Report shall be delivered to the heads of organisational units responsible for the implementation of recommendations, to give consent and/or objections and suggestions to the audit findings and recommendations.

The draft Report referred to in paragraph (2) of this Article shall be supported by the framework of the action plan for the implementation of recommendations.

The draft Report shall be delivered to the competent Vice-Governor, i.e. the Executive Director, depending on the audited organisational unit, for information purposes.

The consent to the audit findings and recommendations supported by the completed and signed action plan for the implementation of accepted recommendations, or the objections and suggestions to the audit findings and recommendations shall be submitted to the Internal Audit within five working days from the day of receipt of the draft Report.

The consent referred to in paragraph (5) of this Article shall be given by virtue of signing each individual recommendation.

In the case of disagreement with the findings and recommendations of the audit, the head of the organisational unit responsible for the implementation of recommendations shall, within the time limit referred to in paragraph (5) of this Article, submit a written statement containing: objections and highlighted disagreements with the audit findings and recommendations, possible suggestions, and an explanation for any unsigned recommendations.

If the objections and suggestions are not delivered within the time limit referred to in paragraph (5) of this Article, it shall be deemed that there is consent to the audit findings and recommendations.

By way of derogation from paragraph (8) of this Article, the chief internal auditor may extend this time limit at the written request of the head of the organisational unit, who, for justified reasons, cannot submit a written statement within the stipulated time limit.

Following the receipt of the written statement referred to in paragraph (7) of this Article, a meeting shall be organised at which the findings and recommendations from the draft Report shall be agreed upon, i.e. the disagreements highlighted in that statement shall be discussed.

The findings and recommendations from the draft Report, which pertain to other organisational units, shall be discussed with the persons responsible for their implementation.

If, after the meeting referred to in paragraph (10) of this Article, there are still positions that have not been agreed upon, the draft Report shall be submitted to the Audit

Committee in order to provide opinions and positions in relation to the findings and recommendations of the audit.

In the case where the positions regarding the delivered objections to the audit findings and recommendations have not been agreed upon, the chief internal auditor shall, in support of the Report, submit to the Governor a written statement of the head of the organisational unit responsible for the implementation of recommendations, the Internal Audit's position on the level of risk that the non-acceptance of recommendations and opinions of the Audit Committee referred to in paragraph (12) of this Article poses for the Central Bank, and the Governor shall decide upon the acceptance or non-acceptance of the said recommendations.

In the case of non-acceptance of the recommendation referred to in paragraph (13) of this Article, the final Audit Report shall state that the recommendation has not been accepted and the level of risk arising from such non-acceptance of the recommendation.

Preliminary Report Article 23

By way of derogation from Article 22 of this Rulebook, the chief internal auditor may approve the drafting of the preliminary Report before the completion of the audit, in the case that the findings of the preliminary Report require urgent action due to risks which may lead to the detrimental to the Central Bank interests.

Preliminary Report shall be submitted to the Governor and to the Audit Committee.

A copy of the preliminary Report shall be delivered to the competent Vice-Governor, i.e. the Executive Director, depending on the audited organisational unit.

Content of the Report Article 24

The Report shall contain, in particular, the following:

- 1) type of the audit,
- 2) purpose and objectives of the audit,
- 3) the subject and scope of audit,
- 4) applied audit methods,
- 5) summary and assessment of internal controls,
- 6) assessment of the effectiveness of risk management,
- 7) findings and recommendations,
- 8) time limits for the implementation of recommendations, and
- 9) conclusions regarding the objections and non-accepted recommendations.

The Annex to the Report shall comprise the action plan for the implementation of recommendations.

The Report must be accurate, objective, clear, concise, constructive, complete, and timely.

If the Report contains a material error or omission, the chief internal auditor shall deliver the corrected Report to all the parties that the original report has been delivered to.

By way of derogation from paragraph (1) of this Article, the preliminary Report referred to in Article 23 of this Rulebook, should, at least, include: the applied audit methods, summary, risk assessment, findings and recommendations.

The Report shall have a confidentiality label "Internal".

Signing and delivery of the Report Article 25

The final Report shall be signed by the chief internal auditor and the members of the audit team.

The final Report with the action plan for the implementation of recommendations shall be delivered to the head of the audited organisational unit, and the excerpt from the Report shall be delivered to other heads of organisational units responsible for the implementation of recommendations from the Report.

The final Report with the action plan for the implementation of recommendations shall be delivered to the Governor and to the Audit Committee.

A copy of the Report and the action plan referred to in paragraph (2) of this Article shall be delivered to the competent Vice-Governor, i.e. the Executive Director, depending on the audited organisational unit.

A copy of the Report may be delivered to third parties in accordance with the law, general Central Bank act governing the confidentiality of information and data, and in accordance with international standards for the professional practice of internal auditing.

Report on Internal Audit Activity Article 26

The chief internal auditor shall draw up periodic (as a rule, semi-annual) and annual Report on Internal Audit Activity.

Reports referred to in paragraph (1) of this Article shall, in particular, include critical risks and areas of increased risks, and risks which demand special attention.

Both, periodic and annual Report on Internal Audit Activity shall be submitted to the Governor and to the Audit Committee for consideration, and to the Council of the Central Bank for approval.

VIII. FOLLOW-UP OF THE IMPLEMENTATION OF RECOMMENDATIONS

Follow-up of the implementation of recommendations

Article 27

The head of the organisational unit responsible for the implementation of recommendations shall report to the Internal Audit on the dynamic and the status of implementation of recommendations from the Report, on a quarterly basis and in writing. Internal Audit shall monitor the activities on the implementation of recommendations from the Report based on the following:

- quarterly reports referred to in paragraph (1) of this Article,
- subsequent review of the implementation of recommendations through *follow-up* audits in the organisational units responsible for their implementation or during regular audits.

Once the organisational unit has fully implemented the recommendations referred to in paragraph (1) of this Article, the head of that organisational unit shall, within five days from the implementation date, notify the Internal Audit thereof in writing and support such notification by the evidence of the implementation of recommendations.

The chief internal auditor shall periodically report to the Governor and the Audit Committee on the status of implementation of recommendations of the Internal Audit, particularly emphasizing critical or high-risk issues, including the impracticability of implementation of recommendations referred to in Article 28 of this Rulebook.

Impracticability of implementation of recommendations

Article 28

Where the head of the organisational unit responsible for the implementation of recommendations determines that, due to significant changes in the manner of operating or other circumstances arising after the receipt of the Report, it is impractical to implement the recommendations specified in the Report, he/she shall submit to the Internal Audit a written explanation supported by the documentation proving the impracticability of implementation of these recommendations.

Internal Audit shall cease the follow-up of the activities on the implementation of recommendations once it has determined the impracticability of their implementation on the basis of the written explanation and documentation referred to in paragraph (1) of this Article and/or on the basis of activities referred to in Article 27 paragraph (2) indent 2 of this Rulebook.

IX. QUALITY ASSURANCE AND IMPROVEMENT

Quality of Internal Audit activity Article 29

Internal audit shall continuously work on improving the quality of its activity.

The chief internal auditor shall draw up and update the Internal Audit Quality Assurance and Improvement Programme, which shall include all aspects of the Internal Audit activity, as well as the audit client satisfaction questionnaire.

The programme referred to in paragraph (2) of this Article shall include internal and external assessments of the quality of Internal Audit activity.

External assessment of the quality of Internal Audit activity shall be conducted at least once in five years by a qualified independent external valuer, who shall not have obligations to or interests in the Central Bank.

Upon the completion of internal and external assessments of the quality of Internal Audit activity, the chief internal auditor shall inform the Governor, the Audit Committee, and the Council of the Central Bank about the results.

The results of the assessment of the quality of Internal Audit activity shall make an integral part of the annual Internal Report on Internal Audit Activity.

The audit client satisfaction questionnaire referred to in paragraph (2) of this Article shall be filled in by the head of the audited organisational unit upon the completion of the audit.

X. COOPERATION

Article 30

The chief internal auditor should exchange information, coordinate activities, and consider the results of other internal and external assurance and advisory activity providers (State Audit Institution, external auditor, etc.) in order to ensure appropriate audit coverage and avoid duplication of activities.

In its activity, the Internal Audit shall cooperate with other Central Bank organisational units responsible for risk management, compliance, and controlling.

The excerpt from the Report relating to the assessment of risk management effectiveness shall be delivered to the organisational unit responsible for risk management in the Central Bank.

XI. FINAL PROVISION

Article 31

This Rulebook shall enter into force on the day following that of its publication on the bulletin board and intranet of the Central Bank of Montenegro.

COUNCIL OF THE CENTRAL BANK OF MONTENEGRO

**CHAIRPERSON
GOVERNOR**

Radoje Žugić, m.p.