

Pursuant to Article 75 paragraph 6 of the Central Bank of Montenegro Law (OGM 40/10, 46/10, 6/13, 70/17), the Council of the Central Bank of Montenegro, at its meeting held on 28 January 2011, passed the following

**RULEBOOK
on the work of Audit Committee**

(no. 0101-4014/7-4 as of 28 January 2011 and no. 0101-2213-4/21 as of 30
March 2021)

I. BASIC PROVISIONS

Article 1

This rulebook shall regulate in more detail the scope and the manner of work of the Audit Committee (hereinafter: the Committee).

Article 2

As a standing body of the Council of the Central Bank of Montenegro (hereinafter: the Council), the Committee shall be authorised to:

- 1) oversee and evaluate the functioning of the internal control system;
- 2) monitor and evaluate financial reporting;
- 3) give an opinion on the selection of an independent external auditor (hereinafter: the external auditor);
- 4) oversee and evaluate the procedure of auditing the financial statements of the Central Bank of Montenegro (hereinafter: the Central Bank);
- 5) monitor and analyse the compliance of the Central Bank's operations with the law, other regulations and general acts;
- 6) oversee the effectiveness and efficiency of the internal audit's work.

The Committee shall report on its work to the Council in accordance with the Central Bank of Montenegro Law and the provisions of this rulebook.

Article 3

In order to continuously, timely and consistently exercise the powers established by the Central Bank of Montenegro Law and this rulebook, the Committee may:

- directly communicate with the chief internal auditor, internal auditors and other employees of the Central Bank;
- directly request information from the governor of the Central Bank (hereinafter: the governor), vice-governor and persons with special powers and responsibilities;

- seek expert opinions, proposals and views on certain issues from persons who are not employed by the Central Bank.

Article 4

The Committee shall submit positions, opinions and proposals to the Council on issues within its jurisdiction.

Within its powers, the Committee may give proposals to the governor for risk management and improvement of the internal control system in the Central Bank, as well as opinions and evaluations on other issues within its jurisdiction.

II SCOPE OF THE COMMITTEE'S ACTIVITY

Article 5

The Committee shall oversee and evaluate the functioning of the internal control system, in particular;

- application of procedures and control processes in the decision-making process related to business, financial and operational policy;
- procedures related to: making decision on the basis of which employees perform their work, the assignment of work and the granting of authorisation to individuals;
- application of methodology for identification, measurement and management of risks;
- establishment of procedures that ensure that all employees make a full contribution to the execution of obligations and responsibilities;
- reliability and efficiency of the information system in the function of the internal control system, its security, adequacy and completeness of oversight.

Article 6

The Committee shall oversee financial reporting and assesses in particular:

- the reporting system and its ability to provide timely, accurate and up-to-date reports and data on the operations of the Central Bank;
- adequacy of separation of duties (separation of asset management from accounting activities, separation of operational activities from the process of their accounting recording);
- accounting practices, policies and procedures of the Central Bank and their compliance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS);

- authorisation and approval procedures for financial transactions and their impact on the reliability of financial statements;
- measures and procedures for receiving, controlling, processing and entering data into business books from accounting documents;
- accuracy and correctness of accounting (financial) records and reliability of financial reporting;
- execution of expenditures and realisation of revenues in relation to planned and comparative sizes, quarterly, semi-annual and annual financial reports and their compliance with the policies and procedures of the Central Bank.

Article 7

In the process of selecting an external auditor, the Committee shall consider the plan and the methodology for conducting an external audit, the reality of the schedule, and the fulfilment of the criteria for the proposed bidder, and give an opinion on its selection.

Article 8

The Committee shall oversee the procedure of auditing the financial statements of the Central Bank and evaluate:

- the establishment of coordination with internal audit and competent organisational units during external audit;
- the independence and impartiality of the work of the external auditor, respect for the principles of professional responsibility and engagement of the external auditor when providing audit related services;
- the effectiveness of the external audit process and the quality of the recommendations contained in the external auditor's report.

The Committee shall establish communication with the external auditor, especially at the beginning of the audit procedure when it considers the planned audit implementation activities and at the end of the audit process when it considers issues that should be analysed according to the Committee or the external auditor, especially the findings, remarks and recommendations of the external auditor.

If necessary, the Committee shall monitor the implementation of activities on the implementation of recommendations, in accordance with the opinion of the external auditor.

Article 9

The Committee may exchange opinions and positions on all significant issues of financial reporting with the governor, director of the Directorate for Finances, Accounting and Controlling, internal and external auditor.

Article 10

The Committee shall monitor and analyse the compliance of the Central Bank's operations with the law, regulations and general acts, while considering:

- the establishment and functioning of the system for harmonising the operations of the Central Bank with the laws and regulations;
- reports on compliance of the Central Bank, obtained upon request from the governor, vice-governor, executive director and/or persons with special powers and responsibilities;
- the implementation of laws, regulations and general acts of the Central Bank, and especially established noncompliance and positions of the competent organisational unit, internal audit and external auditor on those issues;
- the establishment and observance of high moral standards and efficient performance of duties entrusted to employees of the Central Bank and disciplinary and other measures imposed on employees.

Article 11

The Committee shall monitor the effectiveness and efficiency of the internal audit by assessing, in particular:

- the compliance of acts and procedures of internal audit with international internal audit standards;
- activities on the preparation and implementation of the annual internal audit plan (time dynamics and schedule of audits, duration of the audit, method and deadlines for submitting the report on the performed internal audit, level of involvement of internal auditors, planning the dynamics and duration of training, etc.);
- quality of performed audits (number of performed audits, given and accepted recommendations, effects of improved work processes and savings resulting from the implementation of recommendations, number of repeated audits, number of requests for additional audits, etc.).

The Committee shall give opinions and positions on the findings and recommendations from the report on the performed internal audit and perform follow up of the implementation of the recommendations and activities resulting from the given recommendations.

The Committee may discuss organisational, technical and other issues related to the work of the internal audit with the governor and the chief internal auditor.

III MODUS OPERANDI

Article 12

The Committee shall consider issues within its jurisdiction during its meetings.

The Committee shall use the Rules of Procedure to closely regulate the manner of its work.

Article 13

The Committee shall report to the Council on its work, as a rule, on a quarterly basis.

The report referred to in paragraph 1 of this Article shall, in particular, contain information on the meetings held, the issues discussed and the positions taken and the opinions and proposals given.

The Committee shall submit an annual report on its work to the Council, no later than the end of January of the current year for the previous year.

Article 14

The Committee shall have a secretary.

The Secretary of the Committee shall be appointed by the Committee, on the proposal of the Committee chairperson.

The secretary of the Committee shall perform administrative and technical tasks for the needs of the Committee and prepare reports referred to in Article 13 of this Rulebook and draft minutes of Committee meetings.

IV FINAL PROVISIONS

Article 15

On the date this rulebook enters into force, the Rulebook on the work of the Audit Committee (0101-213/10-7 as of 13 August 2004) shall cease to be valid.

Article 16

This rulebook shall enter into force on the eighth day following that of its publication.

THE COUNCIL OF THE CENTRAL BANK OF MONTENEGRO

**CHAIRPERSON
GOVERNOR,**

Radoje Žugić, m.p.

NOTE:

The revised text does not include the provisions of Article 3 of the Rulebook on Amendments to the Rulebook on the work of audit committee (No. 0101-2213-4/21 as of 30 March 2021), which reads as follows:

Article 3

This rulebook shall enter into force on the eighth day following that of its publication.