



# Weekly Briefing

**Montenegro Economy briefing:  
DRI audit report on political parties**  
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## **DRI audit report on political parties**

### **Introduction**

With a new DRI (Montenegro State Audit Institution) report on political parties published consecutively in June resurfaced the debate over how to control political party funding; however, the first reactions expectedly were anchored on the questions does the central audit institution delivers complete and impartial analysis on financing of political parties and is it, or better say, to what extent is immune from political influences. After it had given a “conditional” passing mark for all political parties included in the audit, general impression on the work of DRI is that it rubberstamps incomplete and dubious financial reports and funding malpractices of political parties without making further inquiries or revealing the details of the reports to the public scrutiny.

A silver lining of this year`s report is auditing of DPS finances and finding of no irregularities in its financial report. “Financial audit determined that annual financial report of the subject of audit [DPS] is presented all material aspects in fair and objective way and in accordance with financial reporting practices”, was the concluding remark of the audit report.

Last year the total revenue of the party was 2 913 384, 00 EUR and expenditures were slightly over this figure, leaving the party with insignificant 2966, 00 EUR in deficit. No traces of suspicious funding were found either. The party has received in total 1.7 million EUR from the state budget, 0.88 million EUR from local governments and (only) 94 800 EUR from donations which is less than a total revenue from membership fees (132 000 EUR). Also, the party didn`t exceed the limit for political campaigning set by Law on financing political subjects and campaigns.

In response to the DRI report, media and politicians didn`t pass a lot of comments on the report itself but on the integrity of the institution. Opposition hawks at the parliament criticized the DRI to be extended hand or “next career

step for old DPS cadres”. A. Novakovic from CRNVO, one of the “top 3” NGOs in Montenegro, listed the names of the people in DRI allegedly connected with top government officials either “by family or by party connections”.

As a matter of fact, in trying to keep up with the media reports on DRI officials, the central audit institution in Montenegro strikes as not very typically colorless and dull financial institution. A sex scandal of one of its chief senators believed to be a set up by his political adversaries, irregularities in conducting audit and reporting on some SOEs (Montenegro Airlines), modifying public reports under the political pressure, a list of the officials claimed to be directly appointed by the ruling party, members of ‘rural lobby group’ or in other familiar ways connected with prime minister and other high officials are some of the most recent headlines associated with the DRI.

### **Auditing political donations and campaigns**

As a state auditing institution, DRI monitors the funding and financial reports of state-owned enterprises, local and municipal governments and political parties. Due to small staff, each year DRI selectively picks several SOEs, municipalities and political parties for conducting the audit. Notwithstanding the concerns on politically motivated selection on subjects of auditing (auditing DPS for non-electoral year, for example), impartiality in conducting the audit and report embellishments have also been contested during the years. The most objected is the lack of professional rigidity in giving a passing mark or “conditional opinion” to subjects with highly compromised financial activities. Montenegro Airlines is a case in point. In 2012, this company has been with “awarded” with conditional passing mark even though there were indications pointing on embezzlement and other malfeasances within the company.

Auditing political parties is obviously more politically sensitive and demanding task. Under Montenegro’s Law of financing political subjects, every political party is supposed to submit Annual Financial Report which should

include a balance sheet with stated sources of income, amount and expenditures. For donations during political campaigns, the law stipulates political parties to include in the annual report details on contributions in excess of 5000 euros from any private or corporate subject.

Although Montenegro's political parties may legally obtain funding from a variety of sources, financial resources are unevenly distributed between the ruling party and opposition groups, primarily because of the difficulties that the opposition faces in terms of access to private donations. This has undermined effective political competition but has also complicated investigations on origins of donations.

Ever since a coup attempt in 2016, campaign donations to the opposition parties have been suspected of foreign funding. The ruling party has sought to restrain uncontrolled foreign donations to opposition groups and political parties by launching media campaigns that typically accused either "Sorosoid institutions" or Russian state-proxy structures of financing the opposition groups. This has provoked the reaction of the opposition as well as NGO and media sector, at least those accused to be on the paycheck list of foreign institutions.

They have claimed that successive parliamentary elections and political campaigning in Montenegro has showed the astounding disparity in resources between the ruling party and the opposition groups. According to "independent" finance reports published in media, the ruling Democratic Party of Socialists spent in average 5 to 10 times more than the amount spent by the next (coalition of) opposition parties. This might not be surprising as the ruling party is entitled to more state budget funding, but the opposition parties have also claimed that the authorities worked out devious ways to funnel the money from state-owned companies to its campaign fund and "extorted" private businesses and enterprises to make donations while also discouraging them from providing any support to the opposition. Needless to say, disadvantageous position of opposition parties is augmented with lack of access to administrative resources

which are completely under the control of the ruling party and are drawn upon during the campaign periods.

A review of the 2016 finance reports of Montenegro's leading political parties showed that the ruling DPS had a far greater sum of donations, while opposition groups tended to rely more on state funding. Suspected foreign funding avoided official accounts of the opposition parties and - judging from coup trials that were ongoing from 2017 - were mostly realized through personal accounts and cash payments which pass under the radar of the DRI. As seen during the trials, effective control over suspected funding relied more on Special Prosecution Office (SPO). The SPO and National Security Agency traced suspicious transfers which allocated on the accounts of opposition parties were supposed to be visible to the DRI. The inconsistencies in balance sheet could indicate suspicious sources, but as the practice of donations coming from a private accounts of party members were also common in DPS, balance sheet inconsistencies itself have been neglected in the reports and analysis focused only on big-digit transactions that were obviously indicating sloppiness or malpractice.

According to the recent report for 2017, DPS has spent 151 300 EUR in political campaigning for which it had allocated 137 700 EUR. Even though there is no direct comment explaining 12 000 EUR of excess spending, listings on private and corporate donations were partially made, citing that donations were under threshold that stipulates disclosing donors and sources of funding. The public was left to believe on the word of the ruling DPS claiming that the amount received by small donations is insignificant.

Expectedly, "conditional opinion" could not avoid other political parties. The annual report that was made for oppositional Democratic People's Party (DNP) and minority parties such as Croatian Civic Initiative (HGI) and Albanian Alternative (AA) gave conditional opinion for financial report of all three political parties. The report for DNP, a member of DF coalition, has found several irregularities in compiling and book-keeping, the report procedures and

account allocations. In terms of campaign donations, “it was found that DNP has breached the law by taking 56 300 EUR from current account and transferring it to the DF account for campaigns”. Moreover, DNP has continued to receive donations after campaigning period and continued to do so even after a month from the elections. One of the main problems for DNP was paying the wages to employed party members which was done through part-time instead of full-time contracts which circumscribed the tax regulations and blurred source and destination of private donations. HGI and AA, two minority parties also had a problem with registering income and keeping account on payments to private accounts. However, the impact of financial malpractices of these two political parties was comparable to their political influence.

Since there was no red ink in annual audit report on DPS, their report has kept a low profile in public deliberations, yet public scrutiny was diverged to the government. Independent MP Damjanovic called DRI to check up on suspicious transfers the government made to over 200 companies between May 2017 and May 2018. Citing the confidentiality agreement, the government failed to disclose the exact amount and recipients of around 12.7 million EUR allocated to various accounts for “special purposes”. DRI so far haven’t responded on the matter even though according to law is has to so. This might additionally burden the reputation of DRI - already plagued with the lack of integrity – in the months to come.