



**MONTENEGRO**

**AUDIT AUTHORITY**

No: 3011-4-06-411

**ANNUAL AUDIT ACTIVITY REPORT**  
**OF THE AUDIT AUTHORITY FOR**  
**IPA COMPONENT III – REGIONAL DEVELOPMENT**

OPERATIONAL PROGRAMME REGIONAL DEVELOPMENT 2012-2013

(CCI 2012ME16IPO001)

**FOR THE PERIOD FROM 01 OCTOBER 2015**  
**UNTIL 30 SEPTEMBER 2016**

**Podgorica, December 2016**

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## List of abbreviations

AA	Audit Authority
AAO	Annual Audit Opinion
AAAR	Annual Audit Activity Report
AAWP	Annual Audit Work Plan
BROP	Body responsible for Operational Programme
BRPM	Body responsible for Priority/Measure
CAO	Competent Accrediting Officer
DG REGIO	Directorate General for Regional and Urban Policy
DEU	Delegation of European Union in Montenegro.
DPW	Directorate for Public Works
EU	European Union
EC	European Commission
ER	End Recipient
HOS	Head of Operating Structure
IB	Implementing Body
IPA	Instrument for Pre-Accession Assistance
IT	Information Technology
MCS	Management and Control System
MoP	Manual of Procedures
MSDT	Ministry of Sustainable Development and Tourism
MTMA	Ministry of Transport and Maritime Affairs
MIST	Ministry of Information Society and Telecommunication
NAO	National Authorizing Officer
NF	National Fund
NIPAC	National IPA Coordinator
OG	Official Gazette
OIS	Operational Identification Sheet
OP	Operational Programme
OS	Operating Structure
PRAG	Practical Guide to Contract Procedures for EU External Actions
RDOP	Regional Development Operational Programme
Rulebook	Rulebook on internal organization and systematization
WLA	Work Load Analysis

## 1. INTRODUCTION

### 1.1. Operational programme of IPA covered by the report

This report covers the Operational Programme Regional Development 2012-2013 (hereinafter Programme or RDOP) co-financed from the Instrument for Pre-Accession Assistance on Montenegro 2007-2013. European Commission issued Decision C (2012) 9309 on adopting Operational Programme (CCI 2012ME16IPO001) on 7 December 2012.

The RDOP 2012-2013 is divided into three priority axes and the global objective of priority axes shall be implemented through four measures. The total cost of the RDOP, expressed in terms of eligible public expenditure, is estimated at 26.159.626 EUR (EU Contribution 22.235.679 EUR and National Public Contribution 3.923.947 EUR).

According to the European Commission (EC) Decision (C(2014) 2635) from 25 April 2014 on conferring management powers relating to the Programme, the following structures, bodies and authorities are responsible for the management and implementation of the Programme:

1. **National Authorising Officer**, Director General of Directorate of the State Treasury within Ministry of Finance bears overall responsibility for the financial management of EU funds in Montenegro and the regularity and legality of the underlying transactions.
2. **National Fund**, within Directorate of the State Treasury in Ministry of Finance that operationally supports the NAO.
3. **Operating Structure** which encompasses:
  - Ministry of Sustainable Development and Tourism, Division for EU and other funds management the Division for Management of EU Funds under Directorate for EU integration and international cooperation:
    - as the Body responsible for the Operational Programme;
    - as the Body responsible for Priority axis 1 (to upgrade the environmental management Systems) and Priority axis 3 (to support RDOP implementation)
  - Ministry of Transport and Maritime Affairs, Department for European Integration and International Cooperation as the Body responsible for Priority axis 2 (to improve the transport system, promoting environmentally friendly transport modes, with special emphasis on improving the rail infrastructure in order to provide better services
  - Directorate for Public Works, as the Implementing body for Priority axes 1, 2 and 3.

### 1.2. Bodies involved in the preparation of this report

This Annual Audit Activity Report has been prepared solely by Audit Authority of Montenegro.

Audit Authority of Montenegro (hereinafter: AA) as an independent audit body was

established by Law on Audit of EU Funds (“Official Gazette of Montenegro”, No 14/12 and 54/16).

The AA is responsible for audit of EU funds (IPA, Structural Funds after the accession of Montenegro to the European Union, and other EU funds).

The functional independence of the AA is adequately ensured. According to Article 3 of Law on Audit of EU funds, the AA is functionally and operationally independent of all actors in EU funds management and control system.

In terms of the organisational setup this means that the AA is set up as a functional independent body that has in no way any functional relation(s) with the bodies in the operational setup of the management and control system(s) for the execution of EU funded programs in general and the IPA III component.

The functions of the AA are set out in the Framework Agreement between the Government of Montenegro and the Commission of the European Communities concluded on 15 November 2007, and in Commission Regulation (EC) No 718/2007 from 12 June 2007 Implementing Council Regulation (EC) No 1085/2006 establishing an instrument for pre-accession assistance (IPA) and other agreements between the European Commission and Montenegro.

The AA is responsible for verifying the effective functioning of the management and control system in the bodies responsible for management and implementation of the OPRD 2012-2013.

The AA should submit an Annual Audit Activity Report (AAAR) and Annual Audit Opinion (AAO) following the model set out in Annexes C and D of the Framework Agreement, on the basis of the audit activities carried out from 01 October 2015 until 30 September 2016.

### **1.3. Steps taken for the preparation of the report**

Annual Audit Activity Report (AAAR) is prepared in accordance with:

- Annual Audit Work Plan (AAWP) for the period from 30 September 2015 to 01 October 2016, submitted to the EC- DG Regio and NAO on 30 September 2015 (Annex A of this report) and
- Updated Annual Audit Work Plan (AAWP) for the period from 30 September 2015 to 01 October 2016, submitted to the EC- DG Regio and NAO on 13 April 2016

The AAAR is prepared as a result of audit activities carried out during the period from 01 October 2015 - 30 September 2016. During this period AA carried out system audits, audit of operations and follow-up. Based on the reviewed and approved working papers draft reports have been prepared and submitted to auditees. After receiving their response/comments, final reports on the audit activities were drawn up, containing findings and recommendations given by AA and the response/comments of the auditee(s).

The follow-up was performed as a part of another audit engagement and as a separate activity before issuing the Annual Audit Activity Report and opinion.

Apart from activities planned by AAWP (30 September 2015-01 October 2016), during July 2016 AA carried out assessment of the fulfilment of the accreditation requirements in relation to the Amendments of the Rulebook on Internal Organisation and Systematisation of the Ministry of Sustainable Development and Tourism. Namely, pursuant to the Conclusion from the fourth meeting of the Sectoral Monitoring Committee for the Operational programme „Regional development 2012-2013“ under IPA Component III, which was held on 21 June 2016 and by the letter of the Directorate General for Regional and Urban Policy of the European Commission from 24 June 2016, Audit Authority is required to assess whether all requirements from the management and control systems for IPA Component III have been respected regarding the Amendments of the Rulebook on Internal Organisation and Systematisation of the Ministry of Sustainable Development and Tourism in relation to the Directorate of Public Works (Implementing body for IPA Component III). Detailed information on this activity is provided in section 3.1.2 of this AAAR.

In this AAAR the overall overview of audit activities and follow-up activities carried out in above mentioned periods, are provided.

#### **1.4. Audit scope**

In 2016 the Audit Authority carried out the following activities:

- System audits,
- Audit of operations and
- Follow-up.

##### **1.4.1. System audits**

In carrying out the system audits the audit scope was to examine the compliance of the MCS with the requirements set out in the IPA Implementing Regulation, i.e. accreditation criteria provided in the Annex of the EC Regulation 718/2007, the Framework Agreement and the requirements set out in other agreements and regulations, and to check whether the established system functions effectively. Also, the follow up of the findings and recommendations given in the course of previous audits was included in the system audits engagements.

For the purposes of preparing the Annual Audit Work Plan, we performed risk assessment for operational program Regional Development 2012-2013 at the level of the bodies (organisations) participating in the management and control systems within the IPA Component III, in order to determine the priorities in conducting system audits through bodies participating in the management and implementation of IPA Component III and we performed system audits in all OS bodies and in National Fund (joint audit for IPA Component III and IV).

The scope of audit in each body were processes/functions of the MCS, which were not covered by previous audit and follow up of the findings and recommendations given in the course of previous audits.

Based on level of implementation of Operational Programme Regional Development 2012-2013 (hereinafter OPRD), available AA's resources and all collected information and documentation, as well as our decision that the scope of audit in each body are processes/functions of the MCS which were not included in last audit the following audit

areas were examined:

- Administrative issues, IT policy, Irregularities, Internal control<sup>1</sup> including internal audit, Publicity and visibility, Contract procedures, Contract implementation and on the spot check, part of Financial management, Accounting, Monitoring and Communication and Reporting in **Directorate for Public Works (DPW) - Implementing body (IB)**;
- Administrative issues, IT policy, Irregularities, Internal control, Programming, Contract procedures, Contract implementation and on the spot, Financial management, Management verification and Programme Evaluation in **Ministry of Sustainable Development and Tourism (MSDT) – Body responsible for OP and Body responsible for Priority/measure (BROP/BRPM)**;
- Administrative issues, IT policy, Irregularities, Internal control, Publicity and visibility, Programming, Contract implementation and on the spot check, Financial management and Programme Monitoring in **Ministry of Transport and Maritime Affairs (MTMA) - Body responsible for Priority/measure (BRPM)** and
- Administrative issues, IT policy, Irregularities, Internal control, Communication and Reporting and Publicity and Visibility in **National Fund**.

Also, in each body follow up of the findings and recommendations given in the course of previous audits was included in the system audits engagements.

The summary list of the system audits carried out is given in Annex D to this AAAR.

#### **1.4.2. Audit of operations**

The audit has been performed in the framework of the Operational Programme “Regional Development 2012-2013”, encompassing the expenditure within the operation 1.2.1. (Priority Axis 1- To upgrade the environmental management systems; Measure 1.2 To develop the waste management infrastructure in order to reduce the impact on the environment), operation 2.1.1 (Priority Axis 2- To improve the transport system, promoting environmentally friendly transport modes with special emphasis on improving the rail infrastructure in order to provide better services; Measure 2.1 To modernize the railway mode by improving its efficiency and security) and operation 3.1.1 (Priority Axis 3- Technical Assistance for support implementation OPRD; Measure 3.1 Technical assistance).

The audit encompassed the expenditures amounting to 1.585.227, 45 €, which were paid and declared to the EC in the period from 1 January 2015 until 31 December 2015 (reference year), which is 100% of the expenditure declared to the EC on 30 December 2015 for Priority axes 1, 2 and 3. There were three payments declared to the EC in the period concerned and it related to the advance payments of two works and one service contract.

#### **Scope of the audit**

The following areas were covered during the audit of operations:

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<sup>1</sup> Internal control system in all auditees is audited in the part which refers to reporting the exceptions, recording and correction of internal control weaknesses and significant changes to the management and control system.



- a) Operation's applicability to Operational Programme,
- b) Procurement procedures (tendering and contracting),
- c) Eligibility of expenditure,
- d) Publicity and Visibility,
- e) Payments,
- f) Accounting and supporting documents,
- g) National co-financing,
- h) Audit trail.

The audit of operations was performed in the Implementing body and National Fund. For certain audit areas we used documentation gathered during performed system audits in other bodies which participate in the management and the implementation of operational programme. Considering that the payments in question relate to the advance payments, on site visit to the End Recipients (ER) was not performed.

### **1.4.3. Follow-up**

In 2016 the Audit Authority performed follow-up of the findings and recommendations given in the course of previous audits. Follow-up was performed as a part of another audit engagement as well as separate activity before issuing the AAAR and the Annual Audit Opinion (AAO).

For detailed information of our follow-up approach, please see Section 5.2 (Follow-up approach of the AA) of this AAAR.

#### **1.4.3.1. Follow-up as a part of another audit engagement**

As already mentioned in Section 1.4.1 during each individual system audit the follow-up of findings and recommendations from previous audit is regularly performed, which is then a constituent part of each individual system audit report.

#### **1.4.3.2. Follow-up as a separate activity before issuing the AAAR and AAO**

In December 2016 the AA performed follow-up of the implementation of recommendations from previous audits (audits carried out in 2015) and follow-up of the findings and recommendations given in the course of audits conducted in the period covered by this report.

Follow-up was performed as a separate activity before issuing the AAAR and the AAO and encompassed the following bodies:

- Directorate for Public Works (IB);
- Ministry of Sustainable Development and Tourism (BROP/BRPM)
- Ministry of Transport and Maritime Affairs (BRPM) and
- National Fund (NF).

Follow-up covered the results of the audits in all bodies from operational programme in which the AA carried out audits in the previous period. After the Follow-up, we prepared separate Audit Recommendations' Status Report for each body which is kept in our audit file.

Results of follow-up activities are described in Section 5.3 and in Section 8 of this Report.

## 1.5. Period covered by this report

This report covers the 12-month period which ended on 30 September 2016. Audit activities, on the basis of which this AAAR is prepared, were conducted during 2016.

## 2. SUMMARY OF FINDINGS

As it was already mentioned in Section 1.4 Audit scope, during 2016 the AA carried out system audits, audit of operations and follow-up. The summarized description of the findings identified during the audits is given below.

The outcome of the audit process is summarized in this final audit report that provides findings and recommendations which were identified during the audit process in each body of operating structure and also in National Fund, which is common body for programs from IPA Components III and IV (conducted joint audit by relevant AA's departments).

Findings were categorized according to the level of importance to major, intermediate and minor findings. For easier review we have prepared the table overview.

Table 1: Number of findings identified in this reference period

Audited body	System audits			Audit of operations		
	Major	Intermediate	Minor	Major	Intermediate	Minor
DPW-IB	-	11	8	-	1	-
MSDT-BROP/BRPM	2	5	4	-	-	-
MTMA-BRPM	-	5	2	-	-	-
NF	1	2	2	-	-	-

A detailed list of all findings, categorised by their level of importance (major, intermediate and minor) is given in Annex B of this Report.

### 2.1. Summary of findings from system audits

During 2016 system audits in DPW (IB), MTMA (BRPM), MSDT (BROP/BRPM) and NF were carried out with the general assessment of MCS - works, but some improvements are needed. We identified in total 42 findings: 3 of them are major (7%), 23 are intermediate (55%) and 16 are minor (38%). Number of system audit findings per audited area/process in each body is given in the table below.

Table 2: Number of system audit findings per audited area/process

<b>Audited Process</b>	<b>DPW (IB)</b>	<b>MSDT (BROP/BRPM)</b>	<b>MTMA (BRPM)</b>	<b>National Fund</b>	<b>Total</b>
Administrative issues	0	0	0	0	0
IT Policy	2	2	2	1	7
Irregularities	2	1	1	1	5
Internal control	2	3	1	2	8
Financial management	2	1	2	-	5
Contract implementation and on-the-spot	2	1	1	-	4
Publicity and visibility	0	-	0	0	0
Contract procedures	5	0	-	-	5
Communication and Reporting	2	-	-	1	3
Programme monitoring	0	-	0	-	0
Programming	-	1	0	-	1
Programme Evaluation	-	1	0	-	1
Accounting	2	-	-	-	2
Management verification	-	1	-	-	1
<b>Total</b>	<b>19</b>	<b>11</b>	<b>7</b>	<b>5</b>	<b>42</b>

The most of findings were identified within audit area of **internal control** (which refers to reporting the exceptions, escalation procedures, recording and correction of internal control weaknesses and significant changes to the management and control system). The total number of findings in this audit area are 8 and 2 of them are major, 4 are intermediate and 2 are minor findings. Two major findings relate to significant change in the MCS occurred within Operating Structure (organisational changes in DPW/IB).

During our audit engagements in MSDT-BROP and NF we determined that NAO and HOS were acquainted with Amendments of the Rulebook on Internal Organisation and Systematisation of the Ministry of Sustainable Development and Tourism in part related to the Directorate of Public Works (IB) only after the Government of Montenegro had adopted it. That means that the director of the DPW as a Head of IB has not submitted to HOS the proposal of amendments of the Rulebook in part relating to DPW, with the appropriate explanation regarding IPA issues and supporting documents. For that reason, the assessment of the proposed amendment of the Rulebook by HOS and his obligation to inform NAO on the proposed amendment has lacked. Also, making decision on the significance of change, approval or reject of the proposed amendment and notification of EC (with copy to CAO) by NAO has lacked. Having in mind that the significant change occurred without knowledge of NAO, it is concluded that NAO did not ensure the proper functioning of reporting and information system.

Apart from that we identified the need for improvement in this audit area related to lack of recording of exceptions in all bodies of OS; recording and correction of internal control weaknesses in MSDT-BROP as well as establishing of escalation procedures in MSDT and DPW.

Regarding audit area of **IT policy** we identified 7 intermediate findings. Chapter IT Policy is horizontal chapter and there is same MOP for all IPA institutions which describes design of the IT system as well as its maintenance. However, DPW established its own independent IT system which is different from one described in the MOP and we could not provide

conclusion about functioning of the system related to IT in the DPW. MSDT-BROP/BRPM and MTMA-BRPM did not follow procedures for backup of data and user coordinators are not appointed. Also, MSDT-BROP/BRPM did not follow procedures for blocking user account in case of maternity leave, deleting user accounts for officials who left the organization as well as one employee within MTMA- BRPM is using Windows XP operating system which is not supported for update from Microsoft. Additionally we identified the need for development of Business Continuity Plan in all bodies.

Findings concerning **irregularities** in all audited bodies are based on the improvement of design of the MoP's chapter Irregularities. Bearing in mind that the chapter Irregularities in the MoP is horizontal chapter, findings and recommendations are similar to all IPA bodies. Because there were no any irregularities or suspicion of irregularities reported, we focused on design of the chapter. During audit we identified that the chapter Irregularities is well described, but some improvements are necessary. Some parts of the written procedures are not clear and understandable to all employees and implementation of procedures could be confusing. Additionally, we determined that employees within DPW (except Irregularity Officer) did not participate in the trainings related to irregularities.

Regarding **Financial Management** process in MSDT-BROP we identified that effectiveness of the BROP controls related to the financial management are not at appropriate level. Furthermore, design of controls has some deficiencies and ambiguities. Bearing in mind above mentioned we assessed finding in this audit area as major. In DPW (IB) Project Information System (PIS) is not able to show correct information in order to ensure that DPW performs adequate financial quality control and reconciliation procedure. During budget planning process MTMA-BRPM did not perform activities in accordance with Operational Agreement and MoP. Also, in DPW and MTMA regarding written procedures in this audit area, minor improvements are needed.

Related to **Communication and Reporting** we noticed that improvements, in terms of the active participation of the Head of DPW at high level coordination meetings organised by the CAO/NAO/NIPAC and organizing of coordination meeting at IB level are needed. Also, we identified that ensuring of proof of the organization and holding of internal meetings in DPW and in NF, are needed.

During review of **Programming process** in BRPMs (MTMA and MSDT) we identified that some minor improvements in MSDT-BRPM related to the preparation of the OIS are necessary.

When the **Contract procedures**, audited in DPW-IB are concerned, we determined that agreements with end recipients were not signed; specific checklists are not filled in order to ensure the adequate quality of contract procedures; segregation of duties of Chairperson and the Secretary of Evaluation Committee is not ensured; requests for clarification regarding communication with the tenderers during the evaluation process in all cases have not been signed by the Secretary of Evaluation Committee. Also, we noticed that minor improvements are needed related to written procedures in this audit area.

Due to **Contract implementation and on the spot control** importance in further period of implementation of OPRD, development of clear and concrete procedures for on the spot control by BRPMs is needed. According to our audit engagement in process of contract implementation and on the spot control in DPW we identified that DPW has procedures described, but some improvements are needed. Our recommendations are based on

improvement of particular steps in the process and securing additional audit trail about on the spot controls performed. Also, recommendation is that DPW should provide continuous trainings related to on the spot control in order to increase knowledge of employees and quality of on the spot controls.

When the process of the **Programme evaluation** is in question, apart from the fact that preparation of process for interim evaluation has started in cooperation with DG REGIO, we noticed that Evaluation Plan was not prepared by MSDT-BROP and that additional trainings for Evaluation Officer are needed.

The DPW **accounting** transactions relating to EC financial assistance are based on double entry, analytical and accrual based accounting system. Written procedures, check lists and controls are described in the MoP, Chapter Accounting and accounting software became operative. However, in order to ensure complete, accurate and transparent accounting following internationally accepted accounting principles, existing accounting procedures and accounting software need further improvements. Also, since the accountant does not have previous experience in accounting jobs, providing trainings to accountant related to the accounting (including accounting software), in order to get additional knowledge is necessary.

Related to **management verification** process in part of OTCSs (follow-up) performed by BROP in the previous period, some improvements are needed in terms of efficient qualitative level of verifications checks. Part of this process which refers to verifications by HOS/BROP/BRPM of each Request for Funds for EU co-financing and Statement of Expenditure submitted by IB was audited through audit area Financial management.

Findings are not identified in audit areas: Administrative issues, Publicity and Visibility and Programme Monitoring.

In December 2016, as a separate activity, we performed Follow-up of the findings and recommendations given in the course of these audits.

A detailed description of the principal findings identified and of accompanying recommendations provided, as well as results of follow-up activities are presented in the Chapter 5 - Systems audits (Section 5.3).

## **2.2. Summary of findings from audit of operations**

For the operations 1.2.1, 2.1.1 and 3.1.1 the expenditure in the total amount of 1.585.227.45 €, was declared to the European Commission in the reference period 01 January-31 December 2015. In accordance with the AA's audit methodology, during the audit we covered the expenditure amounting to 1.585.227.45 € which is 100% of the expenditure declared to the EC on 30 December 2015 for Priority axes 1, 2 and 3.

The audit encompassed the operations for which the expenditure relate to the advance payments and we have performed the checks that could be performed having in mind the nature of the paid expenditure (advance payment).

No transaction findings were identified during the audit. During the audit we have identified only one system finding related to not initialling all pages of Particular conditions of contract.

A detailed description of the findings identified and of accompanying recommendation provided is presented in Chapter 6 - Audits of a sample of operations (Section 6.2).

### **2.3. Conclusion on the functioning of the system for period ended on 30 September 2016**

At this phase of the implementation of operational programme, the findings identified during the course of our audits were system findings while errors with financial impact as well as irregularities were not identified during audits carried out.

Our conclusion on the functioning of the management and control system (MCS) for the period ended on 30 September 2016 (reference period) is based on the audit work carried out during 2016 (audit period). In that period AA carried out system audits, audit of operations, follow-up of the findings and recommendations given in the course of previous audits and assessment of the fulfilment of the accreditation requirements in relation to the Amendments of the Rulebook on Internal Organisation and Systematisation of the Ministry of Sustainable Development and Tourism. Also, during 2016 AA continuously collected the information on the changes in the system.

Therefore, as a result of our audit activities we consider that it is appropriate to conclude that the management and control system established for OPRD for the period 01 October 2015 – 30 September 2016 works. We highlight that the AA has performed system audits of all OS Bodies in Component III and in NF with the general assessment of MCS - works, but some improvements are needed. First of all, improvements are needed in the area of internal control in order to provide respect of the prescribed procedures in relation to changes in MCS by all bodies in MCS and impede implementation of changes without prior approval. Also, NAO should strengthen available mechanisms and keep under strict monitoring all IPA bodies in order to prevent that substantial changes occur without prior approval by NAO.

As a result of our system audits and follow-up activities and taking into account the result of the audit of operations performed during 2016, we can conclude that the management and control system established for OPRD for the period 01 October 2015 – 30 September 2016 has functioned effectively. Consequently, for period ended on 30 September 2016 we will issue an unqualified opinion.

#### **Remarks on the changes occurred in the management and control system (emphasis of matter)**

At the end of April 2016 the Government of Montenegro adopted the Amendments of the Rulebook on Internal Organization and Systematization of the Ministry of Sustainable Development and Tourism, by which organization in the Directorate of Public Works has been changed and the number of IPA staff has been reduced.

During the performed assessment related to this occurred change (detailed in section 3.1.2 of this report), we determined that there has come to the slight reduction of the number of job positions for carrying out activities from the scope of competence of the Directorate of Public Works. However, by the new Rulebook, the number of executors for IPA activities has been significantly reduced in relation to the previous Rulebook and required number according to WLA 2016. Occurred change has not been conducted in accordance with EU and national regulation i.e. the procedure in case of planning or implementation of changes in the system.

We emphasise that we covered the issue of occurred change in MCS in audit engagements in MSDT-BROP and NF where we identified two major findings and recommended that HOS and NAO should undertake activities in order to provide respect of the prescribed procedures in relation to changes in MCS by all bodies in MCS and impede implementation of changes without prior approval. Also, we recommended that NAO, in compliance with his

responsibilities and available mechanisms, ensure proper functioning of reporting and information system in order to, inter alia, be able to keep under constant surveillance IPA bodies for which he is directly responsible and thus monitor permanent fulfilment of all requirements so that this accreditation could be kept.

Certain corrective activities for overcoming the occurring problem have been being undertaken by the persons responsible, in order to mitigate consequences of occurred situation for the implementation of OPRD. Those activities were presented by NAO to the EC in August 2016, as mentioned in section 3.1.2 of this report. Apart from presented activities NAO also submitted to EC proposal of new organization and systematization act of DPW.

In the meantime the Government of Montenegro at the session held on 25th November 2016 adopted Decree on changes and amendments of the Decree on the public administration and manner of work (OG MN No 74/2016), by which Directorate for Public Works/IB has been transferred from the Ministry of Sustainable Development and Tourism to the Ministry of Transport and Maritime Affairs as the separate administrative body within MTMA organization. Having in mind this change, MTMA has obligation to harmonize Rulebook on Internal Organisation and Systematisation in accordance to new responsibility.

Following governmental changes after the election, in order to prevent similar situation, NAO submitted a letter with additional instructions regarding the announcement of changes in the system. The letter has been sent to all new Ministers on 5<sup>th</sup> of December 2016.

The our auditor's opinion is not modified in respect of the matter emphasized.

AA shall follow the activity of harmonization of Rulebook, with special attention to part which refers to the changes in organization of DPW, as body within MTMA. Therefore, resolving of this issue as well as the implementation of the remaining recommendations given in our system audit reports will be regularly followed in future audit activities.

Also, we would like to stress that treatment of significant changes in system will be covered during our system audit engagement planned in AAWP for the period 1 October 2016 until 30 September 2017.

### **3. CHANGES IN MANAGEMENT AND CONTROL SYSTEMS**

In our last AAAR, we reported on significant changes in the management and control systems (MCS) in the period from 01 October 2014 until 30 September 2015 and in the period from 1 October until mid- December 2015.

#### **3.1. Changes in the MCS since last AAAR**

##### **3.1.1. Changes in individuals (persons) responsible for managing OPRD 2012-2013**

- **Head of Implementing Body/ Director of Directorate for Public Works**

At the session held on 3 March 2016, the Government of Montenegro adopted the Decision on termination of the mandate of the former director Mr. Žarko Živković. At the same session, the Government proposed appointment of Mr. Milan Martinović, as an acting director (Head of IB). ). The NAO informed the EC (with a copy of notification to the AA) on 10 March 2016 (letter No 06-350/1) on the replacement of the Director of DPW (Head of IB). This Decision was published on 13 May 2016 (OG No 31/2016).

- **Competent Accrediting Officer**

At the session held on 19 May 2016, the Parliament of Montenegro adopted the Decision on dismissal of Minister of Finance Mr. Radoje Žugić. At the same session, the Parliament appointed Mr. Raško Konjević as new Minister of Finance. Decision on appointment of persons responsible for carrying out the decentralised management of pre-accession of EU funds was published on 04 November 2016 (OG MN No. 69/16).

- **Head of Operating Structure HOS**

Since the Head of Division for EU and other funds management Ms Ratka Sekulović left her position, Director of Directorate for EU integration and international cooperation in MSDT Ms Marija Vukčević has taken over role of Head of Operating Structure. NAO informed EC about this change on 11<sup>th</sup> of July 2016 (Letter No. 06-3285/1). Decision on appointment of persons responsible for carrying out the decentralised management of pre-accession EU funds was published on 04 November 2016 (OG MN No. 69/16).

- **Strategic Coordinator for IPA Components III and IV**

Government of Montenegro on its session held on 28<sup>th</sup> of July 2016 adopted a Decision on the termination of the mandate of the former Director General of the Directorate General for Coordination of EU Assistance Programmes in the Ministry of Foreign Affairs and European Integration, Ms. Ana Vukadinović, on her personal request. At the same session, the Government appointed Ms. Ivana Glišević Đurović as Acting Director General as well as Strategic Coordinator for IPA Component III and IV. This Decision was published on 7 September 2016 (OG MN 58/2016).

The NAO informed the EC (with a copy of notification to the AA) on 3<sup>th</sup> of August 2016 (letter No 06-3693/1) on the replacement of the Strategic Coordinator for IPA Components III and IV. Decision on appointment of persons responsible for carrying out the decentralised management of pre-accession EU funds was published on 04 November 2016 (OG MN No. 69/16).

### **3.1.2. Organizational changes**

- **Amendments of the Rulebook on Internal Organization and Systematization of the Ministry of Sustainable Development and Tourism related to Directorate for Public Works (IB)**

At the session held on 28 April 2016 the Government of Montenegro adopted the Amendments of the Rulebook on Internal Organization and Systematization of the Ministry of Sustainable Development and Tourism, by which organization in the Directorate of Public Works, as the body within the Ministry of Sustainable Development and Tourism, has been changed and the number of IPA staff has been reduced.

After the implemented change, by the letter from 27 May 2016, National Authorising Officer (NAO) informed DG REGIO and DG NEAR on the amendment of the Rulebook on Internal Organization and Systematization of the Ministry of Sustainable Development and Tourism. The copy of the letter was also delivered to the Audit Authority.

As above mentioned in Section 1.3 of this report, pursuant to the Conclusion from the fourth meeting of the Sectoral Monitoring Committee for the Operational programme „Regional development 2012-2013“ under IPA Component III, which was held on 21 June 2016 and by



the letter of the Directorate General for Regional and Urban Policy of the European Commission from 24 June 2016, Audit Authority is required to assess whether all requirements from the management and control systems for IPA Component III have been respected regarding the Amendments of the Rulebook on Internal Organisation and Systematisation of the Ministry of Sustainable Development and Tourism in relation to the Directorate of Public works (Implementing body for IPA Component III).

AA have examined the documentation, proceedings and procedures related to the change in the management and control system (MCS), in order to determine whether bodies have respected all requirements in accordance with their competences and responsibilities and their harmonization with the Framework Agreement, Financial Agreement, procedures and other relevant acts relating to implementation of Operational Programme Regional Development 2012-2013 (OPRD) -IPA Component III. The report was drawn up in which results of assessment of the fulfilment of the accreditation criteria in the relation to the amendments of the Rulebook of internal organization and systematization of the Ministry of Sustainable Development and Tourism in part related to the Directorate of Public Works (DPW) were presented.

Issued Report was submitted to EC- DG Regio-Directorate D-Territorial Co-operation, Macro-regions and North-West Europe, with copy to NIPAC, NAO, HOS and Head of the Delegation of the EU to Montenegro, on 5<sup>th</sup> of August 2016.

During our engagement we determined that by amendments of this Rulebook in DPW the number of sectors has remained the same (3), and the new organisational unit has been established (Department for IPA Funds) in which eight (8) job positions for performing IPA activities are systematised.

Comparing the previous and the new Rulebook, we determined that there has come to the slight reduction of the number of job positions for carrying out activities from the scope of competence of the Directorate of Public Works (instead of 39, 38 job positions is foreseen now). However, by the new Rulebook, the number of executors for IPA activities has been significantly reduced in relation to the previous rulebook and required number according to WLA 2016.

Apart from that, job descriptions of systematised job positions in the Department for IPA funds and envisaged number of executors do not ensure the respect of the principle of segregation of duties in part of contracting, quality control and financing, as well as respect of fulfilment of accreditation criteria in relation to Directorate of Public Works as IB for IPA.

In relation to the amendment of the Rulebook on internal organisation and systematisation of MSDT, during our engagement we determined that the director of the DPW as a Head of IB, has not submitted to HOS the proposal of amendments of the Rulebook in part relating to DPW, with the appropriate explanation regarding IPA issues and supporting documents. For that reason, in accordance with the prescribed procedure, the assessment of the proposed amendment of the Rulebook by HOS and his obligation to inform NAO on the proposed amendment has lacked. Because of the stated omissions in the system, activities by NAO relating to: review of the proposed amendment, assessment of the impact of the proposed amendment on the overall system, making decision on the significance of change (minor or significant change), approval or reject of the proposed amendment and notification of EC on the significant change in MCS before its introduction, have also lacked.

Regarding changes in the management and control systems for IPA Component III related to Amendments of the Rulebook on Internal Organisation and Systematisation of the Ministry of Sustainable Development and Tourism AA has determined as follows:

- organization in the Directorate of Public Works has been changed and the number of IPA staff has been reduced;
- the respect of the principle of segregation of duties is not ensured;
- adopted procedures relating to changes in the management and control system are detailed and clear from the very initiation of changes to the approval and notification;
- the change has not been conducted in accordance with the procedure in case of planning or implementation of changes in the system;
- corrective activities for overcoming the occurring problem have been being undertaken by the persons responsible.

In June 2016 the EC (DG NEAR) required from NAO a detailed assessment of the occurred situation, with opinion on whether or not continuous fulfilment of the accreditation criteria and entrustment requirements is ensured. Regarding the DPW issue, the NAO submitted in August 2016 assessment and corrective measures proposal accompanied by supporting documentation to EC (DG Near) with copy to DG Regio, CAO, NIPAC, AA, HOS and DEU in Montenegro.

### **3.1.3. Procedural changes**

New Implementing Agreement between the National Authorising Officer (NAO) and the Head of Operating Structure (HOS) was signed in February 2016.

New Operational Agreement between the bodies of the OS for IPA component III for the management and implementation of the Operational Programme for regional development for 2012-2013 was signed in February 2016.

## **3.2. Changes in the MCS from 01 October until mid-December 2016**

### **• Change of Competent Accrediting Officer**

After the Parliamentary elections held in October 2016, the new Parliament, at the session held on 28 November 2016, appointed the Prime Minister and members of 41<sup>st</sup> Government of Montenegro.

New Minister of Finance is Mr. Darko Radunović.

The NAO informed the EC (with a copy of notification to the AA) about this change on 29<sup>th</sup> of December 2016 (letter No 06-6122//1).

### **• Change of position Directorate for Public Works within new governmental set up in Montenegro**

By the Decree on changes and amendments of the Decree on the public administration and manner of work, adopted by the Government of Montenegro on 25<sup>th</sup> of November 2016 (OG MN No 74/2016), Directorate for Public Works (IB for OPRD 2012-2013-IPA Component III) has been transferred from the Ministry of Sustainable Development and Tourism to the Ministry of Transport and Maritime Affairs (as the separate administrative body within MTMA).

The NAO informed the EC (with a copy of notification to the AA) about this change on 9<sup>th</sup> of December 2016 (letter No 06-5722/1).

#### **4. CHANGES TO THE ANNUAL AUDIT WORK PLAN (AAWP)**

AAWP for the period 01 October 2015 – 30 September 2016 was prepared in September 2015 and was sent to EC-DG REGIO with copy to NAO on 30 September 2015.

In the April 2016 we updated this AAWP. Updated AAWP was sent to the EC-DG Regio with copy to NAO on 13<sup>th</sup> April 2016.

Since at the time of preparation of AAWP (September 2015), there were no signed contracts, no payments made and no declared expenditures, it was not possible to plan carrying out audit of operations. Due to the fact that on 30 December 2015 NAO submitted first Certification of expenditure and Interim Payment Application to the EC, we updated this AAWP.

By the updated plan, we planned to carry out audit of operations in September 2016. Other activities planned by the previous plan remained the same.

Changes to the Annual Audit Work Plan are laid down in Annex C.

#### **5. SYSTEMS AUDITS**

This AAAR is prepared by the AA and all activities in the course of 2016 were performed by the AA.

The summary list of the system audits carried out is given in Annex D to this AAAR.

##### **5.1. Basis for selection of the audits**

We performed our activities in accordance with the AAWP for period 01 October 2015 – 30 September 2016 and updated AAWP for the same period.

During preparation of AAWP for 2016 for the System audits risk assessment was performed for operational programme Regional Development 2012-2013 at the level of the bodies (organisations) participating in the management and control systems within the IPA Component III, for the purpose of determining the priorities in conducting system audits through bodies participating in the management and implementation of IPA Component III.

We identified and assessed the following risk factors: Results of previous audits, Status of implementation OPRD, Staffing (sufficiency, competence and experience in the field), Changes from the previous audits (organisational, procedures, employees) and the monetary amount of the assistance administered by the body.

In order to distinguish between the factors with varying importance, we gave the weight to the specific risk factors, and calculated the total score for each body. Finally, we ranked all bodies (organisations) within OPRD.

We decided that in the period from January to September 2016 audit covers all four bodies which participate in management and implementation of IPA Component III.

However, in accordance with conducted risk assessment we planned to start in the most risky body (IB-DPW), and after that we planned to continue system audit in BRPM-MTMA, HOS/BROP/BRPM-MSDT and NF.

Also, we defined that the scope of audit in each body should cover processes/functions of the MCS, which were not covered by previous audit and in accordance to status of implementation of OPRD 2012-2013 at the moment of preparation of each engagement plan.

## **5.2. Follow-up activities**

### **5.2.1. Follow-up approach - general**

According to the AA's Manual of Procedures "The objective of the follow-up process is to determine whether the issues rose in the audit have been adequately addressed and the audit report recommendations are implemented in a timely manner. In general, the follow-up of the audit findings and errors shall be performed annually and the information provided in the Annual Audit Activity Report. The follow-up can be performed as a part of another audit engagement, or as a separate activity before issuing the Annual Audit Activity Report, opinion (and report) on the management and control systems, and the opinion (and report) on the statement of expenditure. Follow-up by AA is defined as a process by which it determines the adequacy, effectiveness, and timeliness of actions taken by management on reported errors and audit findings, including corrective and preventive measures applied, application of any financial adjustments and remedial action plans. AA should ascertain that actions taken on audit findings remedy the underlying conditions. The same standards for audit evidence shall be applied to follow-up work as those used for documenting original audit work. The results of the follow-up shall be documented in the "Audit recommendation status report".

### **5.2.2. Follow-up approach in 2016**

In 2016 the Audit Authority performed follow-up of the findings and recommendations given in the course of previous audits. Follow-up was performed as a part of another audit engagement as well as separate activity before issuing the AAAR and the Annual Audit Opinion (AAO).

During each individual system audit the follow-up on recommendations from previous audits is regularly performed, which is then a constituent part of each individual system audit report.

In the December 2016 we performed Follow-up as a separate activity before issuing AAAR and AAO.

For the purpose of carrying out the follow-up we have conducted a set of activities:

- At the beginning of December 2016 we sent to all bodies, in which we performed system audits, Table with the summary of findings and recommendations from previous audits. We informed them that we needed the follow-up for the preparation of the AAAR which should be submitted to the EC, CAO and NAO by the end of December 2016. Therefore, we requested from all bodies to include into the Tables their Management response on the status of the individual recommendation with the appropriate explanation, regardless of whether deadline for implementation of recommendation has expired or not. We also informed them that they should prepare the evidence on the fulfilment of the individual recommendation which will be provided to us.
- In mid-December 2016 we received all the information we requested from all bodies.

After the analysis of the received responses and documentation collected, we assessed the status of the individual recommendation with the respective explanation and we prepared a separate Audit Recommendations' Status Report for each body. We informed all auditees about the results of our follow-up activities.

Finally, the results of our Follow-up activities shall be described in this AAAR in the following way:

a) For the audits which the AA performed in 2016, the results of the Follow-up shall be described in Chapter 5, Section 5.3, to ensure the continuity, i.e. in order to have the insight into the implementation of the recommendations given. In other words, the most important findings identified during the audits which was performed during 2016 and recommendations given accordingly will be presented briefly in the beginning, and will be followed by a results of the follow-up which was performed in December 2016.

b) For the audits carried out in previous periods the results of the follow-up shall be described in Chapter 8 – Follow up of previous year's audit activity.

Apart from this separate activity which was performed in December 2016, we would like to stress again that during each individual system audit the follow-up on recommendations from previous audits is regularly performed, which is then a constituent part of each individual system audit report.

### **5.3. Principal findings / Follow-up / Corrective measures applied or recommended and Conclusion**

Further below there is a description of the most important findings (major and intermediate) identified and conclusions reached through audits per audit areas. Recommendations provided for correcting the findings detected as well as information on the measures undertaken for the purpose of eliminating the findings are laid down.

#### **• INTERNAL CONTROL**

Internal control system is audited in the part which refers to reporting the exceptions, recording and correction of internal control weaknesses and significant changes to the management and control system.

In this audit area we identified two major findings in MSDT-BROP/BRPM and National Fund which refer to change in the MCS.

In compliance with the Article 14 of the Framework Agreement, NAO is responsible for monitoring permanent fulfilment of all the requirements in order to keep this accreditation and he is obliged to inform the Commission and Competent Accreditation Officer on all significant changes related to it.

In accordance with the Article 5 point 2 of the Implementing Agreement between National Authorizing Officer and Head of Operating Structure the HOS shall inform the NAO ex-ante about any planned changes in the management and control system and structures within the OS providing appropriate explanation, justification and the consequences of the proposed change. The NAO shall assess whether the change should be considered as minor or significant and whether the change should be notified to the European Commission. A copy of the notification letter to the EC shall be submitted to the Competent Accrediting Officer.

Apart from that, according to the current procedures (MoP version 5, part I, Chapter Internal Control, Point - Significant changes to the management and control system), the obligation of each body is to announce every change which it plans to introduce into the system before this change occurs. Also, it is stated that HOS reviews and assesses the proposed changes in the MCS; discusses with the relevant parties involved about the introduced changes; notifies NAO about the changes at the MCS, so that NAO could make decision on the influence of that change on the accredited system and inform EC and CAO on it, if the change is significant.

Related to the significant change which refers to Amendments of the Rulebook on Internal Organisation and Systematisation of the Ministry of Sustainable Development and Tourism - Directorate for Public Works, on which EC was informed by NAO by the letter from 27 May 2016 (which was stated in chapter 3.1.3 of this report) during our audit engagements in MSDT-BROP and NF we determined the following:

- NAO and HOS were acquainted with the above mentioned change only after the Government of Montenegro, upon the proposal of the Ministry of Sustainable Development and Tourism, had adopted the above mentioned act, which means that the director of the DPW as a Head of IB has not submitted to HOS the proposal of amendments of the Rulebook in part relating to DPW, with the appropriate explanation regarding IPA issues and supporting documents. For that reason, in accordance with the prescribed procedure, the assessment of the proposed amendment of the Rulebook by HOS and his obligation to inform NAO on the proposed amendment has lacked. Obvious omissions in the system caused that activities by NAO relating to: review of the proposed amendment, assessment of the impact of the proposed amendment on the overall system, making decision on the significance of change (minor or significant change), approval or reject of the proposed amendment and notification of EC (with copy to CAO) on the significant change in MCS before its introduction, also have lacked.
- By the letter from 27 May 2016, National Authorising Officer (NAO) informed DG REGIO and DG NEAR on the amendment of the Rulebook on Internal Organization and Systematization of the Ministry of Sustainable Development and Tourism, but a copy of this letter was not submitted to the Competent Accrediting Officer (CAO).
- Having in mind that the significant change occurred without knowledge of NAO, it is concluded that NAO did not ensure the proper functioning of reporting and information system (Article 25, Item 4(e) of IPA Implementing Regulation 718/2007 and Article 4(b) of the Annex A of the Framework Agreement).

Therefore, we recommended that HOS and NAO should undertake activities in order to provide respect of the prescribed procedures in relation to changes in MCS by all bodies in MCS and impede implementation of changes without prior approval. Also, we recommended that NAO, in compliance with his responsibilities and available mechanisms, ensure proper functioning of reporting and information system in order to, inter alia, be able to keep under constant surveillance IPA bodies for which he is directly responsible and thus monitor permanent fulfilment of all requirements so that this accreditation could be kept.

Apart from those findings in this audit area we determined that exceptions related to the procurement procedure approved by EC-DG Regio are not recorded in Registers of exceptions in DPW.

Also, it was determined that Exceptions Request Forms are not filled and exceptions are not recorded in Register of exceptions in the MSTD and MTMA.

NAO is not informed on those exceptions by either of auditees (OS bodies).

Apart from above mentioned during audit in MSDT-BROP/BRPM, by the insight into Register of Internal control weaknesses, it was noticed that it has not been updated with all weaknesses identified in the previous period. Also, Action plan and Follow-up of the detected weaknesses has not been updated, respectively. Escalation procedures are not established for internal control weaknesses as well as other issues identified and not remedied in the agreed timetable.

We recommended to all bodies of OS that when such exceptional circumstances arise to properly document management intervention in order to ensure that variations to normal practices are always recorded and logged and reviewed at appropriate levels. Also, NAO should be informed. Our recommendations in MSDT were that Register of internal control weaknesses should be updated with all weaknesses identified in the previous period; Action plan and Follow-up of the detected weaknesses should be updated respectively and escalation procedures for internal control weaknesses and other issues identified and not remedied in the agreed timetable should be established in accordance to procedures described in MoP.

### **Results of follow-up**

MSDT-BROP/BRPM updated Register of Internal Control Weaknesses, but Action plan and Follow-up of the detected weaknesses are not updated respectively and escalation procedures are not established.

The NAO submitted letter to all Heads of IPA Bodies, in which they were reminded on the obligation to announce each change in the system. Additionally, following governmental changes after the election, in order to prevent similar situation, NAO submitted a letter with additional instructions regarding the announcement of changes in the system. The letter has been sent to all new Ministers. Undertaken activities related to solving of major findings given during audits in MSDT and NF are not appropriate and enough for implementation of our recommendations.

All findings in all bodies related to this audit area remained open.

The AA shall follow the activities on the implementation of those recommendations as well as verification of implementation of outstanding recommendations.

#### **• IT POLICY**

IT procedures are described in the Manual of Procedures, Part I, chapter IT Policy. Chapter IT Policy is horizontal chapter and there is same MOP for all IPA institutions. However, during audit we identified that there is inconsistency between MOP chapter “IT Policy” and actual activities in the DPW related to the IT. DPW established their own independent IT system which is different from one described in the MOP.

When it comes to MSDT-BROP/BRPM, MTMA-BRPM and NF most of the tasks related to the IT are performed by Ministry of Information Society and Telecommunication. MIST is dealing with security policy, user rights and backup of the emails on the server. The security policy is well designed and all PCs are well protected with firewalls and antivirus software's. However, during review we identified that MSDT-BROP/BRPM and MTMA-BRPM did not perform any backup of data and our recommendation are based on performing regular backup

in line with procedures described in the MOP.

Additionally, in MSDT-BROP/BRPM we recommended that representatives from BROP/BRPM should follow procedures for blocking user accounts in case of maternity leave or long business trip as well as procedures for deleting accounts after official leaves the organization.

Also, in MTMA we recommended defining backup storages 1 and 2 within BRPM, appointing user coordinator and developing forms described in the annex 1 “Operational procedures”. Our recommendations include that all employees should have operating system allowed for updates from Microsoft on their personal computers.

Related to IT Policy Business Continuity Plan is not developed in either auditees.

### **Results of follow-up**

Findings related to IT Policy remained open in all audited bodies. However, some progress is identified. MSDT-BROP/BRPM performed backup procedure and deleted accounts of officials who left organisation and MSDT-BRPM initiated procedure for purchasing of IT equipment necessary for closing some of findings, in first line hard disc for backup procedure and personal computer with adequate operating system.

Apart from that, during follow up in DPW we identified that there have been no changes since the time of audit, finding is still open, and there should be stronger management commitment related to this issue.

#### **• IRREGULARITIES**

Findings concerning irregularities in all audited bodies are based on the improvement of design of the MoP's chapter Irregularities. Bearing in mind that the chapter Irregularities in the MoP is horizontal chapter, findings and recommendations are similar to all IPA bodies. Because there were no any irregularities or suspicion of irregularities reported, we focused on design of the chapter. During audit we identified that the chapter Irregularities is well described, but some improvements are necessary. Some parts of the written procedures are not clear and understandable to all employees and implementation of procedures could be confusing. Improvements are related to the concrete tasks and steps within processes related to irregularities. Also, types of irregularities within MOP should be aligned with types of irregularities listed in the annex XVIII of the Financing Agreement and tips from whistle blowers should be included as a method for discovering irregularities. Alignment of the flowcharts is necessary, including narrative description of each step in the process.

Apart from above mentioned improvements in this chapter of MoP related to establishing better communication lines between irregularity officer and financial departments in IB (DPW) and NF is needed.

### **Results of follow-up**

Based on the follow-up we have determined that all bodies initiated procedure for changing MOP chapter Irregularities in line with AA recommendations. It is expected that the new version of the Manual of Procedures v.6.0. for IPA component III will be adopted during the first quarter of 2017.



## • FINANCIAL MANAGEMENT

Regarding this audit area we identified findings in all bodies of OS (DPW, MSDT and MTMA). In DPW we audited part of this process (which was not audited in previous audit).

Principal findings and recommendations in this audit area given by audited bodies are as follows:

### **MSDT-BROP/BRPM**

In MSDT-BROP we identified major finding in this audit area. During audit we identified that functioning of the BROP controls related to the financial management are not at appropriate level, furthermore design of controls has some deficiencies and ambiguities. When it comes to preparation of the statement of expenditure and control related to the payment application, our opinion is that the prescribed procedures may lead to problems in functioning of the system in the following period. The template that refers to the statement of expenditure and payment application given as Annex II of the Financing Agreement is obliged to be used by the NAO during the statement of expenditure to the Commission. However, according to the Decree on organisation of the decentralized management of Instrument for pre-accession EU assistance (IPA), and Implementing Agreement, the obligation of the HOS includes preparation of statement of expenditures by the HOS to the NAO using the same template and the same checklist as NAO and NF, although HOS in relation to her/his role, is not able to provide it.

When it comes to the verification of the request for funds, checklist contains vague questions which could lead employees to wrong answer. Also, checklists for verification of Request for Funds are formally completed, which means that they are not used as a tool for controls for which they are developed. In addition, checklists within financial management do not have reference to the documents for which are used.

We recommended further enhancement of the quality functioning of the BROP controls related to the financial management in terms of:

- HOS should reassess procedures described in the MOP chapter financial management in order to be able to fulfil her/his role in the process. HOS should prepare statement of expenditures based on her/his verification and on template developed in line with her/his responsibilities and possibilities.
- All checklists should contain clear and concise questions and all answers should be adequately supported with the reliable and accurate supporting documents. Taking into account importance of the verification control using checklists they should be used as a tool for the purpose of verification and should be carefully filled in. Checklists within chapter financial management should have reference to the documents, for which they are filled in, for example name and number of document.
- HOS should provide continuous trainings related to the financial management to the employees which are dealing with these issues.

### **DPW-IB**

Regarding audited part of financial management, during the audit we noticed that Project Information system (PIS) was not able to show correct information in order to ensure that DPW performs adequate financial quality control and reconciliation procedure and we recommended that DPW initiate enhancement of PIS in order to be able to show correct information.

## **MTMA-BRPM**

According to Operational Agreement and MoP (Chapter Financial Management, point 2.3: The budget planning process) during the budget planning process BRPM is responsible for: checking the data in the Three Years Disbursement Forecasts and in annual cash-flow forecast which concern the concrete BRPM operations; making sure that all BRPM operations are included; preparation of the letter with comments/opinion; performing controls in the checklist and submission of the original package to the IB and a copy of the package to the HOS.

During the audit we determined that BRPM did not perform the above mentioned activities during Budget planning process.

Our recommendation was that tasks of BRPM during budget planning process should be performed in accordance with provisions given in the Operational Agreement and in the MoP.

### **Results of follow-up**

Regarding implementation of our recommendation in this audit area certain activities have been taken by auditees. Budget planning process in MTMA was performed on proper way, and we closed this finding.

Implementation of new Project Information System in DPW is in progress. However, when new system becomes operative, AA will be in position to determine enhancement of PIS and finding remains open.

MSDT has not taken the steps necessary to implement our recommendation. Therefore, this finding remained open and it will be followed with special attention by AA during the audit engagement planned in 2017.

### **• CONTRACT PROCEDURES**

The main findings relating to this audit area are identified in DPW and concern the signing of the Agreements with End Recipients (ER), Check lists related to Contract procedures and Segregation of duties.

During the audit we noticed that the Contract with End Recipient under priority Axis 1, Measure 1.2 was not signed at the time of our audit, although procurement contract is signed and we recommended that the OS should conclude agreements with all end recipients in due time i.e. before concluding the first contract from the operation in order to timely define tasks, obligations and responsibilities of contracting parties.

For assuring the quality of contract procedures specific check-lists have been developed and constitute an integral part of DPW's MoP. However, during audit we determined that some checklists are not properly filled and that some checklist are not filled at all. It was recommended that checklists should be filled in order to ensure the adequate quality of contract procedures.

In the MoP, Chapter Contract Procedures it is stated that it is important that the Chairperson and the Secretary by Evaluation Committee, who are provided from the IB staff, have not been involved in preparation of the Tender Dossier of the project which is the subject of the evaluation process. Also, in Job description of Contract Manager it is stated "If not involved in tender preparation and implementation of the relating contract, acting as a chairman/observer at Tender Evaluation Committees' meetings".

Since contract Managers for Service contract “Capacity building of the Operating Structure staff and translation of documents in relation with Socio-economic policy area (Regional Development)” were acting as chairman/secretary of Tender Evaluation Committee, our recommendation was that DPW staff conduct activities and tasks in accordance to the Manual of Procedures and Job description.

### **Results of Follow-up**

When the Contract procedures audited in DPW-IB are concerned, since agreements with ER within Priority Axis 1 and 2 were signed but agreements within Priority Axis 3 have not been signed yet, this finding is partially closed.

Related to finding concerning to fulfilment of checklists in contracting, progress was made. However, having in mind that process of contacting within OPRD has not been finished yet and that deadline for this finding is continuous, the finding remains open as well as finding concerning to Segregation of duties.

#### **• COMMUNICATION AND REPORTING**

In Operational Agreement between the bodies of the Operating structure for IPA component III, Article 8 (Reporting and communication) it is clearly stated that one of the responsibilities of IB is to participate at high level coordination meetings (CAO,NAO,NIPAC,SC). Moreover, in the MoP, version 5.0, part II, Chapter Communication and Reporting, it is specified that in order to ensure effective programming and implementation of IPA, coordination meetings need to be organised at IB level.

During the audit we noticed that neither Head of IB nor his replacement participated at any of high level coordination meetings organised by the CAO/NAO/NIPAC. Furthermore, during our audit engagement we noticed that there was no audit trail provided for coordination meetings organized at IB level.

### **Results of follow up**

As regards Communication and Reporting during follow-up we noticed that representative of DPW attended IPA Monitoring Committee organized by the NIPAC office. Until mid-December DPW did not organise coordination meeting at the IB level. However, since the representatives of DPW regularly attended all meetings of OS (held one per month) and meetings with DEU in Montenegro (usually twice per month) our opinion is that organizing of coordination meeting at IB level in this year has not been necessary. Therefore, we decided to close this finding.

#### **• ACCOUNTING**

This process was audited in DPW-IB. During audit we determined certain shortcomings in existing accounting procedures and in accounting software. Namely, we noticed that some parts of chart of account is not in compliance with Rulebook on the unique classification of State Budget accounts, Budget of Non-Budgetary funds and Municipality Budget; account is not foreseen by class, category, group, synthetic in case that change of the contract occurs in terms of increasing or decreasing of contract value, i.e. termination of contract; within class 9, analytic accounts by measures/projects/contracts are not foreseen; procedures for debts management are not completed, together with the debtors' ledger; accounting software is not able to produce accurate financial statement; manual for users – Accounting software is not

included in the MoP.

Also, in Annex 4 (MoP's, version 5.0 chapter Accounting) and in accounting software, templates of Statement of open liabilities and Cash-flow statement III are given (financial Statements in accordance with national legislation). Furthermore, in the mentioned Annex it is stated that those statements should be sent to State Treasury on quarterly basis. However, those statements cannot be made on the basis of record from this software, because these financial statements include recording of all transactions of DPW (transaction related to IPA projects and transaction related to national projects). Having in mind that accounting software does not include recording of transactions related to national projects and it is not linked with SAP system, those statements in this software cannot be accurate. Also, since DPW was organized within Ministry of Sustainable Development and Tourism, submitting those reports is responsibility of MSDT.

Apart from the above mentioned we identified that accountant attended one specific training related to accounting and since the accountant does not have previous experience in accounting jobs, one training is not sufficient.

In this audit area our recommendations were to improve existing accounting procedures and accounting software in order to ensure complete, accurate and transparent accounting following internationally accepted accounting principles and to provide trainings to accountant related to the accounting (including accounting software), in order to get additional knowledge.

### **Results of follow-up**

Based on the follow up we have determined that new accounting software is prepared and tested and that the employee of DPW were included in workshops and trainings regarding usage of the new accounting system. DPW proposed changes in MoP in accordance to AA's recommendations. However, until the new software becomes operative and new version of MoP enters into force, finding remained open. AA will follow implementation of this recommendation during planned audit engagement in DPW in 2017.

Regarding finding Training of accountant, during follow-up we determined that accountant had practical trainings, but there were not enough trainings. Therefore, we partially closed this finding.

### **Conclusion of follow-up activities**

During follow-up carried out in December 2016 we determined that some progresses in implementation of recommendations have been made. Having in mind the fact that the audits were carried out by November 2016 the certain part of the recommendations is still in the implementation phase. Also, we would like to stress that based on the follow up we have determined that all auditees initiated changes in MoP in accordance with our recommendations in certain audit areas (Irregularities; Financial management; Contracting; Contract implementation and on-the spot). It is expected that the new version of the Manual of Procedures v.6.0 for IPA component III will be adopted during the first quarter of 2017, when will consider to close these findings (12 findings, i.e. 29% of all findings ).

Findings related to internal control system and IT Policy remained open in all audited bodies. Recommendations provided will be further followed up in the upcoming period.

## 5.4. Financial impact on findings

On the basis of the information collected and findings identified in the course of carrying out the system audits, there is no financial impact of findings.

List of system audit reports were submitted to DG REGIO are provided in Annex F of this report.

## 6. AUDITS OF SAMPLE OF OPERATIONS

Audit of operations in the course of 2016 were performed by the AA.

The list of the audit of operations carried out is given in Annex E to this AAAR.

In accordance with the AA's Manual of Procedures, in determining the materiality, AA considers the Commission regulation 1828/2006 and EC guidelines. Accordingly, the maximum materiality level is 2% of expenditure declared to the EC in the reference year.

In 2016 AA performed audit on 100% of the expenditure declared to the European Commission (EC) for the operations within all three Priority axes of OPRD in the reference year (period 1 January until 31 December 2015).

The audit encompassed the expenditures amounting to 1.585.227, 45 €, which were paid and declared to the EC in the period from 1 January 2015 until 31 December 2015. In the framework of the OPRD 2012-2013, there were three payments declared to the EC in the period concerned and audit encompassed the operations for which the expenditure concerns the advance payments and we have performed the checks that could be performed having in mind the nature of the paid expenditure (advance payment). Summary data of the audited operations are presented in the following table.

Priority Axis/Measure/Operation		EXPENDITURE AUDITED		
		IPA funds (co-financing rate 85%)	National public expenditure (co-financing rate 15%)	Total expenditure declared
<b>Priority Axis 1: To upgrade the environmental management Systems</b>				
<b>Measure 1.2</b> To develop the waste management infrastructure in order to reduce the impact on the environment	<b>Operation 1.2.1.</b> Design and Rehabilitation of Unsanitary Dumpsite - „Café” in the Municipality of Bar	587.642,55	103.701,65	691.344,20
<b>Priority Axis 2: To improve the transport system, promoting environmentally friendly transport modes, with special emphasis on improving the rail infrastructure in order to provide better services</b>				
<b>Measure 2.1</b> To modernize the railway mode by improving its efficiency and security	<b>Operation 2.1.1</b> Dismantling of the existing one, procurement, and installation of a new electric traction substation Trebešica	742.800,58	131.082,67	873.883,25
<b>Priority Axis 3: To support RDOP implementation</b>				
<b>Measure 3.1</b> Technical assistance	<b>Operation 3.1.1</b> Implementation of Communication Action Plan (CAP), Organization of the work Sectorial Monitoring Committee (SMC), Capacity building of OS staff and translation of key documents	16.999,99	3.000,01	20.000,00

## **6.1. Results of the substantive testing**

No transaction findings were identified. During the audit we have identified only one system finding.

The audit encompassed the operations for which the expenditure concerns the advance payment and we have performed the checks that could be performed having in mind the nature of the paid expenditure (advance payment).

The finding relating to the audit of operations within OPRD 2012-2013 concerns the Signing of particular conditions of contract. During the audit we determined that Contracting Authority- Directorate for Public Works (IB) and Delegation of European Union (DEU) in Montenegro did not initial all pages of Particular conditions of contract in accordance to Article 2.9.2: Contract preparation and signature of Practical Guide to Contract Procedures for EU External Actions (PRAG), for the following works contracts:

- “Dismantling of the existing one, procurement and installation of a new electric traction substation Trebešica” (operation 1.2.1) and
- “Design and Rehabilitation of Unsanitary Dumpsite - „Café” in the Municipality of Bar” (operation 2.1.1)

We recommended that DPW should initial all pages of the special (particular) conditions of signed contracts.

Related to this finding DPW-IB in their response emphasized that all subsequent signed contracts comply with PRAG Article 2.9.2. Since all planned contracts within OPRD are not signed yet, finding remained open.

## **Conclusion**

To conclude, the audit encompassed the operations for which the expenditure concerns the advance payment and we have performed the checks that could be performed having in mind the nature of the paid expenditure (advance payment). During the audit of operations we have identified only one systems finding. There were no transaction findings and financial errors were not identified during the audit.

## **7. COORDINATION BETWEEN AUDIT BODIES AND SUPERVISORY WORK OF THE AUDIT AUTHORITY**

The AA does not rely on the work of other audit bodies in performing its functions and responsibilities.

## **8. FOLLOW - UP OF PREVIOUS YEARS' AUDIT ACTIVITY**

Follow-up approach of the AA was in details described in Section 5.2.

Results of the follow-up for the audits carried out in previous periods are described in this Section of the Report.

Follow up covered the results of the audits from previous years (2015) in all bodies of OS and NF.

Once again we would like to stress that during each individual system audit the follow-up on

recommendations from previous audits is regularly performed, which is then a constituent part of each individual system audit report. Also, in December 2016 Audit Authority performed further follow-up of those findings and recommendations, as separate activity before issuing the AAAR and the Annual Audit Opinion (AAO).

Summarized overview of the status of all findings (including findings closed in December 2015) identified in previous audits in all bodies of OS and NF in December 2016 is given in table below:

No	Finding	Level of priority*	Status in December 2016	New level of Priority	New deadline
<b>DIRECTORATE FOR PUBLIC WORKS (DPW) - IB</b>					
1	Work Load Analysis	Intermediate	Closed		
2	Lack of staff, Recruitment Plan and Recruitment	Intermediate	Closed		
3	Training	Intermediate	Closed		
4	Internal acts and polices, responsible persons, Job Descriptions, Substitution policy and Segregation of duties	Intermediate	Closed		
5	Preparation of Statement of Assurance	Intermediate	Closed		
6	Budget Planning	Intermediate	Closed		
7	Commitments and Disbursement Status	Intermediate	Closed		
8	Written Procedures – Manual of Procedures	Minor	Closed		
9	Monitoring of implementation of Work Plan-audit trail	Minor	Closed		
10	Trainings for employees in area Risk Management/attendance on the Risk Management Panel/Risk Register	Minor	Closed		
<b>MINISTRY OF SUSTAINABLE DEVELOPMENT AND TOURISM (MSDT) -BROP/BRPM</b>					
1	Written Procedures – Manual of Procedures	Intermediate	Closed		
2	Training	Intermediate	Closed		
3	Handover procedures	Intermediate	Closed		
4	Inadequate audit trail relating to performed on-the-spot checks and management verification in tendering	Intermediate	Partially closed	Minor	Continuously
5	Capacity in Internal audit unit and qualifications of internal auditors	Intermediate	Closed		
6	Preparation of Statement of Assurance	Intermediate	Closed		
7	Job Descriptions	Minor	Closed		
<b>MINISTRY OF TRANSPORT AND MARITIME AFFAIRS (MTMA) - BRPM</b>					
1	Lack of staff	Intermediate	Closed		
2	Personnel Performance Evaluation	Intermediate	Closed		
3	Retention of employees	Intermediate	Closed		
4	Annual Work Plan and semi-annual monitoring of implementation of the Annual Work Plan	Intermediate	Closed		
5	Handover procedures	Intermediate	Open		Continuously
6	Inadequate premises and equipment	Intermediate	Partially closed		
7	Segregation of duties	Intermediate	Closed		
8	Risk management / Delay in implementation - project from OPRD 2012-2013	Intermediate	Open-In progress		Continuously
9	Capacity in Internal audit unit	Intermediate	Open		End of 1st quarter of 2017

10	Annual Planning	Intermediate	Closed		
11	Preparation of Statement of Assurance	Intermediate	Closed		
12	Preparation of Draft Prior Information Notice	Intermediate	Closed		
13	Audit trail – Tender documentation (specific to each type of contact)	Intermediate	Closed		
14	Written procedures-Manual of Procedures	Minor	Closed		
15	Training plan and training reports	Minor	Closed		
16	Coordination meetings	Minor	Closed		
<b>NATIONAL FUND (NF)</b>					
1	Written procedures - Manual of Procedures	Intermediate	Closed		
2	Preparation of Statement of Assurance	Intermediate/Minor	Open		March 2017
3	Communication between NAO and CAO	Intermediate	Closed		
4	Risk Management Panel	Intermediate	Closed		
5	Verification of the existence and correctness of the co-financing elements	Intermediate	Closed		
6	Correctness of the planning of co-financing (EU and national)	Intermediate	Closed		
7	Incompatibility of decisions on employment with the Rulebook on internal organization and systematization	Minor	Open		March 2017

\*Initial level of priority from individual system audit reports

Based on the results of follow-up activities performed related to the findings from previous year we concluded that 33 recommendations out of 40 were implemented, 2 were partially implemented and 5 not implemented (1 out of 5 is in progress but having in mind that the deadline is continuous, it remains open).

We stress that DPW – IB implemented all our recommendations.

The follow-up of all not implemented recommendations AA will be performed during next audit engagements.

## 9. RESOURCES USED BY THE AUDIT AUTHORITY

The AA carried out all audits in 2016 with its own resources.

Two auditors work in the Unit for Audit of IPA Component III (Authorizing Auditor-Team Leader and Auditor). Audits and follow-up activities in the framework of OS of IPA Component III were performed by 2 auditors from the Unit and by 2 auditors from other units.

System audit and follow-up activities in NF were carried out by audit team consisted of auditors from several units of the AA.



## ANNEX A: ANNUAL WORK PLAN FROM 01 OCTOBER 2015 UNTIL 30 SEPTEMBER 2016

AAWP for the period from 01 October 2015 until 30 September 2016 was prepared and submitted to the EC with copy to NAO in September 2015. In this respect, overview table of planned audit activities containing activities planned in period 01 October 2015 – 30 September 2016 are enclosed in the attachment.

PLANNED AUDIT ENGAGEMENTS						
NO .	NAME OF THE AUDIT (AUDIT OBJECT)/ AUDIT ACTIVITY	OBJECTIVE OF THE AUDIT	AUDITEE	INDICATIVE DEADLINE OF THE AUDIT REPORT AND AUDIT TIMING	AUDIT TYPE	REMARKS
1.	Functioning of the MCS	Verify functioning of management and control system	Directorate of Public Works - Implementing Body	January-March 2016	System audit	-
2.	Functioning of the MCS	Verify functioning of management and control system	Ministry of Transport and Maritime Affairs (BRPM)	March-June 2016	System audit	-
3.	Functioning of the MCS	Verify functioning of management and control system	Ministry of Sustainable Development and Tourism (HOS, BROP/ BRPM)	June -September 2016	System audit	-
4.	Functioning of the MCS	Verify functioning of management and control system	National Fund	May-September 2016	System audit	Joint audit for Components III and IV*
OTHER ACTIVITIES						
5.	Follow-up	Follow-up of previous audits AA's for the purposes of issuing the AAAR and AAO	Directorate of Public Works -IB, Ministry of Sustainable Development and Tourism (HOS,BROP/BRPM), Ministry of Transport and Maritime Affairs (BRPM) and National Fund	November-December 2015	Follow-up	-
6.	Reporting (AAAR and AAO)	Preparing AAAR and AAO for OP within IPA Component III	-	December 2015	-	-
7.	Planning (AAWP)	Preparing AAWP for OP within IPA Component III for the following reference year (1.10. 2016 – 30.09.2017)	-	September 2016	-	-

\* COMMON BODIE FOR COMPONENT III AND OTHER IPA COMPONENTS – Considering that National Fund participate in the implementation of IPA Components III and IV, it is planned to perform joint audit by the relevant Units in the Audit Authority.

MCS – Management and Control Systems  
OP – Operational Programme  
HOS – Head of Operating Structure

BROP - Body responsible for the Operational Programme  
BRPM - Body responsible for Priority/Measure  
IB - Implementing Body

## ANNEX B: LIST OF FINDINGS FROM SYSTEM AUDITS AND AUDIT OF OPERATIONS

In accordance with Chapter 2 - Summary of Findings, a List of findings is provided regarding single report on the system audits and audit of operations

No	Finding	Level of priority	Reference to the Section of the report
<b>Findings identified during system audit</b>			
<b>DIRECTORATE FOR PUBLIC WORKS (DPW) - IB</b>			
1	Written procedures related to IT Policy	Intermediate	4.1.1
2	Business continuity plan	Intermediate	4.1.2
3	Written Procedures related to chapter Irregularities	Intermediate	4.2.1
4	Recording of exceptions	Intermediate	4.3.1
5	Agreements with end recipients	Intermediate	4.4.1
6	Check lists related to Contract procedures	Intermediate	4.4.2
7	Segregation of duties (Evaluation Committee)	Intermediate	4.4.3
8	Project Information System (PIS) as basis for financial quality control and reconciliation procedure	Intermediate	4.6.1
9	Accounting	Intermediate	4.7.1
10	Training of accountant	Intermediate	4.7.2
11	Coordination meetings	Intermediate	4.8.1
12	Trainings related to irregularities	Minor	4.2.2
13	Establishing of escalation procedures	Minor	4.3.2
14	Request for clarification requiring communication with the tenderers during the evaluation process	Minor	4.4.4
15	Written Procedures related to Contract procedures	Minor	4.4.5
16	Written Procedures related to chapter Contract implementation and OTSC control	Minor	4.5.1
17	Trainings - OTSC	Minor	4.5.2
18	Written Procedures related to Financial Management	Minor	4.6.2
19	Internal meetings	Minor	4.8.2
<b>MINISTRY OF SUSTAINABLE DEVELOPMENT AND TOURISM (MSDT) - BROP/BRPM</b>			
1	Process of approval of changes in the management and control system concerning the Operating Structure	Major	4.3.3.
2	Financial Management	Major	4.6.1
3	IT Policy	Intermediate	4.1.1
4	Business continuity plan	Intermediate	4.1.2
5	Written Procedures related to chapter Irregularities	Intermediate	4.2.1
6	Recording of exceptions	Intermediate	4.3.1
7	Recording and correction of internal control weaknesses	Intermediate	4.3.2.
8	Preparation of Operational Identification Sheet	Minor	4.4.1.
9	Written procedures related to Contract implementation and OTSC control	Minor	4.5.1.
10	Follow-up on the spot verification	Minor	4.7.1.
11	Lack of Evaluation plan	Minor	4.8.1.

<b>MINISTRY OF TRANSPORT AND MARITIME AFFAIRS (MTMA) - BRPM</b>			
1	IT Policy	Intermediate	4.1.1
2	Business continuity plan	Intermediate	4.1.2
3	Written Procedures related to chapter Irregularities	Intermediate	4.2.1
4	Recording of exceptions	Intermediate	4.3.1
5	The budget planning process	Intermediate	4.5.2
6	Written Procedures related to chapter Contract implementation and OTSC control	Minor	4.4.1
7	Written Procedures related to Financial Management	Minor	4.5.1
<b>NATIONAL FUND (NF)</b>			
1	Changes in the Management and Control system	Major	4.3.1
2	Written Procedures related to the Irregularities	Intermediate	4.1.1
3	Business continuity plan	Intermediate	4.4.1
4	Internal Control Weaknesses	Minor	4.3.2
5	Lack of holding internal meetings at the level of NF	Minor	4.5.1
<b>Finding identified during audit of operations</b>			
<b>DIRECTORATE FOR PUBLIC WORKS</b>			
1	Signing of particular conditions of contract	Intermediate	2.2.1

## **ANNEX C: LIST OF CHANGES TO THE ANNUAL AUDIT WORK PLAN**

Annual Audit Work Plan (AAWP) for the period from 30 September 2015 to 01 October 2016 was submitted to the EC- DG Regio with copy to NAO on 30 September 2015 (Annex A of this report).

Since at the time of preparation of AAWP (September 2015), there were no signed contracts, no payment made and no declared expenditures, it was not possible to plan carrying out audit of operation. Due to fact that on 30 December 2015 NAO submitted first Certification of expenditure and Interim Payment Application to the EC, we updated this AAWP.

Updated Annual Audit Work Plan (AAWP) for the period from 30 September 2015 to 01 October 2016 was submitted to the EC- DG Regio with copy to NAO on 13 April 2016.

Changes in plan relate only to adding of audit of operations which is planned to be carried out in September 2016. Other activities planned by the previous plan remained the same.

In 2016 all planned audit activities were carried out.

## ANNEX D: SUMMARY LIST FOR SYSTEM AUDITS CARRIED OUT FROM 01 OCTOBER UNTIL 30 SEPTEMBER 2015

<b>Date of performance of the systems audit*</b>	<b>Programme / system audited</b>	<b>Auditing entity</b>	<b>Expenditure declared in reference year</b>	<b>Total cumulative expenditure declared</b>	<b>Basis of selection of the programme<sup>2</sup></b>
January – April 2016	OPRD 2012ME16IPO001/ DP – IB	Audit Authority	1.585.227, 45 €**	1.585.227, 45 €**	Risk assessment
April-June 2016	OPRD 2012ME16IPO001/ MTMA- BRPM	Audit Authority	1.585.227, 45 €	1.585.227, 45 €	Risk assessment
June-September 2016	OPRD 2012ME16IPO001 MSDT- BROP/BRPM	Audit Authority	1.585.227, 45€	1.585.227, 45 €	Risk assessment
July-November 2016	OPRD 2012ME16IPO001/ National Fund - NF	Audit Authority	1.585.227, 45 €	1.585.227, 45 €	Risk assessment

\* Date of performance of the systems audit – the above mentioned period covers the period from the beginning of the audit until the submission of the final report on the audit carried out to the audit

\*\*1.585.227, 45 €– amounts relate to expenditure declared for the OPRD.

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<sup>2</sup> Within IPA Component III there is one programme Operational Programme Regional Development 2012-2013 Risk assessment was performed in purpose of determining the priorities in conducting system audits through bodies participating in the management and implementation of IPA Component III.

**ANNEX E: SUMMARY LIST FOR DECLARED EXPENDITURE AND SAMPLE AUDITS CARRIED OUT FROM 01 OCTOBER UNTIL 30 SEPTEMBER 2016**

Fund	Reference (CCI no)	OP	Expenditure declared in ref. year	Expenditure in ref year audited for the random sample		Amount and percentage (error rate) of irregular expenditure in random sample (3)		Other expenditur e audited (4)	Amount of irregular expenditure in other expenditure sample	Total expenditure declared cumulatively	Total expenditure <i>audited</i> cumulatively as a percentage of total expenditure <i>declared</i> cumulatively	Materiality level (%)	Confidence level (%)
				1.	2.	Amount	%	1.					
<b>IPA</b>	<b>CCI2012ME16IPO001</b>	<b>RD</b>	<b>1.585.227, 45 €</b>	<b>1.585.227, 45 €</b>	<b>100%</b>	<b>0,00</b>	<b>0</b>	<b>0,00</b>	<b>0,00</b>	<b>1.585.227, 45 €</b>	<b>100%</b>	<b>2%</b>	<b>-</b>

**ANNEX F: LIST OF AUDIT REPORTS SUBMITTED TO THE COMMISSION - DG REGIO**

<b>System audits reports</b>		<b>Date of submission of the Report to EC-DG Regio</b>
1.	System Audit Report on the audit of Functioning of Management and Control System in Directorate for Public Works/IB for Operational programme “Regional development 2012-2013”	18 <sup>th</sup> April 2016
2.	System Audit Report on the audit of Functioning of Management and Control System in Ministry of Transport and Maritime Affairs /BRPM for Operational programme “Regional development 2012-2013	27 <sup>th</sup> June 2016
3.	System Audit Report on the audit of Functioning of Management and Control System in Ministry of Sustainable Development and Tourism /BROP/BRPM for Operational programme “Regional development 2012-2013	26 <sup>th</sup> September 2016
4.	System Audit Report on the audit of Functioning of Management and Control System in National Fund	8 <sup>th</sup> November 2016