



MONTENEGRO

AUDIT AUTHORITY

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ANNUAL AUDIT ACTIVITY REPORT
OF THE AUDIT AUTHORITY FOR
IPA COMPONENT IV – HUMAN RESOURCES DEVELOPMENT

OPERATIONAL PROGRAMME HUMAN RESOURCES DEVELOPMENT 2012-2013

(CCI 2007 ME 05I PO 001)

FOR THE PERIOD FROM 01st OCTOBER 2015
UNTIL 30th 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
CFCU	Central Finance and Contracting Unit
CAO	Competent Accrediting Officer
CDT	Commitments and Disbursements Status Table
DG EMPL	Directorate General for Employment, Social Affairs and Inclusion
EU	European Union
EC	European Commission
EvC	Evaluation Committee
HOS	Head of Operating Structure
IAD	Internal Audit Department
IB	Implementing Body
IPA	Instrument for Pre-Accession Assistance
JD	Job Description
MCS	Management and Control System
MoE	Ministry of Education
MoS	Ministry of Science
MoP	Manual of Procedures
MLSW	Ministry of Labour and Social Welfare
MF	Ministry of Finance
NAO	National Authorizing Officer
NF	National Fund
NIPAC	National IPA Coordinator
OG	Official Gazette
OP	Operational Programme
OS	Operating Structure
OP HRD	Human Resources Development Operational Programme
RM	Risk Manager
RMC	Risk Management Coordinator
RMP	Risk Management Panel
Rulebook	Rulebook on internal organization and systematization
SoA	Statement of Assurance
WLA	Work Load Analysis

1. INTRODUCTION

1.1. Operational programme of IPA covered by the report

This report covers the Operational Programme Human Resources Development 2012-2013 (hereinafter Programme or OPHRD) co-financed from the Instrument for Pre-Accession Assistance on Montenegro 2007-2013. European Commission issued Decision C (2012) 7202 on adopting Operational Programme (CCI 2007 ME 05I PO 001) on 18th October 2012.

The OPHRD 2012-2013 is divided into four priority axes and the global objective of priority axes shall be implemented through six measures. The total cost of the OPHRD, expressed in terms of eligible public expenditure, is estimated at 6.568.240 EUR (EU Contribution 5.583.000 EUR and National Public Contribution 985.240 EUR).

According to the EC Decision (C(2014) 5195) from 28th July 2014 on conferring management powers relating to Programme, the following structures, bodies and authorities are responsible for the management and implementation of the Programme:

- **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.
- **National Fund**, within Directorate of the State Treasury in Ministry of Finance, operationally supports NAO.
- **Operating Structure** which encompasses:
 - **Ministry of Labour and Social Welfare** as Body responsible for the Operational Programme and Body responsible for priority axis 1, 3 and 4 and measures in the field of the labour and employment, in particular the measures 1.1, 3.1, 4.1 and 4.2;
 - **Ministry of Education** as Body responsible for priority axis 2 and measures in the field of education, in particular the measure 2.1;
 - **Ministry of Science** as Body responsible for priority axis 2 and measures in the field of research and innovation, in particular the measure 2.2;
 - **Central Finance and Contracting Unit (CFCU)** acting as Implementing Body (Contracting Authority) for all measures implemented within IPA Component IV.

1.2. Bodies involved in the preparation of this report

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

The AA of Montenegro, as an independent audit body, was established by the 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 the 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 functionally independent body that in no way has any functional relation(s) with the bodies in the operational setup of the management and control system(s) for the execution of EU funded programmes in general and the IPA IV component specific.

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 15th November 2007, and in Commission Regulation (EC) No 718/2007 from 12th 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 OPHRD 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 01st October 2015 until 30th September 2016.

1.3. Steps taken for the preparation of the report

Annual Audit Activity Report (AAAR) is prepared in accordance with the Audit Authority's Annual Audit Work Plan (AAWP) for period 1st October 2015 – 30th September 2016, which was submitted to the EC-DG EMPL on 30th September 2015, and updated AAWP submitted to the EC-DG EMPL on 13th April 2016.

The AAAR is prepared as a result of audit activities carried out during the period 01st October 2015 – 30th September 2016. During this period AA carried out system audits, audit of operations and follow-up.

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 Annual Audit opinion.

In this AAAR the overall overview of audit activities and follow up activities carried out in the above mentioned periods, is provided. The AA prepared the AAAR on its own, taking into consideration that the AA does not rely on the work of other audit bodies in carrying out its functions.

1.4. Audit scope

In the period 01st October 2015 – 30th September 2016 AA carried out 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 No 718/2007, i.e. accreditation criteria provided in the Annex of this Regulation, the Framework Agreement and the requirements set out in other agreements and regulations, and to check whether the established system functions effectively.

During the reporting period auditors have carried out examinations of the effectiveness and efficiency of the management and control systems in auditees to the extent possible at the current stage of implementation of OPHRD. We were focused on the processes/functions/areas listed below and examined their compliance with applicable accreditation criteria at the current stage of implementation of OP.

For the purpose of detailed defining of the scope of the each audit, in the planning phase we performed a detailed risk assessment to determine the priority processes in conducting system audits. During the risk assessment, based on gathered documentation, risks were identified and taken into account at the level of each process. Therefore, based on the level of implementation of OPHRD, available AA's resources and all collected information and documentation as well as the results of risk assessment, the following audit areas were examined:

- Internal organization and Human Recourses, Statement of Assurance, Communication and Reporting, Internal Audit, Risk Management, Publicity and visibility, Contract Procedures and Irregularities in **Ministry of Education as Body responsible for priority/measure in the field of education (Measure 2.1)**;
- Internal Organization and Human Resources, Communication and Reporting, Risk Management, Irregularities, Contract Procedures, Publicity and Visibility and Statement of Assurance in **Ministry of Science as Body responsible for priority/measure in the field of research and innovations (Measure 2.2)**;
- Contract procedures, Financial management, Administrative issues, Irregularities, Programme monitoring, Programme evaluation, IT policy, Publicity and Visibility and Communication and Reporting in **Ministry of Labour and Social Welfare as Body responsible for the Operational Programme and Body responsible for priority axis 1 and 4 and measures 1.1, 4.1 and 4.2**;
- Irregularities, Administrative issues, Financial Management, Contract Procedures, Contract Implementation and OTSC, Accounting, IT Policy, Programme Monitoring, Communication and Reporting in **Central Finance and Contracting Unit (CFCU) acting as Implementing Body (Contracting Authority)** for all measures implemented within IPA Component IV;
- Irregularities, Administrative issues, Internal Control¹, IT Policy, Communication and Reporting and Publicity and Visibility in **National Fund (NF)**. Considering that National Fund participates in the implementation of IPA Components III and IV, joint audit was performed by the relevant Units in the Audit Authority.

Also, in each body we audited written procedures related to the above mentioned audit areas. The summary list of the system audits carried out is given in Annex D to this AAAR.

¹ Internal control system is audited in the part which is refer to reporting the exceptions, recording and correction of internal control weaknesses and significant changes to the management and control system, since the all other processes are covered in our audits.

1.4.2. Audit of operations

The audit of operations in the framework of the Operational Programme Human Resources Development 2012-2013 (HRD) has been performed on the operations for which the expenditure were paid and declared to the European Commission (EC) in the period from 1st January 2015 until 31st December 2015. There was only one statement of expenditure declared to the EC in the period concerned and it was related to the advance payments of three contracts (measures 1.1; 2.1 and 4.1) and direct award within measure 4.2 for technical assistance.

The audit encompassed the expenditure amounting to EUR 529.340,60, which is the 100% of overall declared expenditure.

The following operations and the corresponding expenditure were under the scope of the audit:

- Operation 1.1.1 Active labour market measures for employability (Priority axis 1);
- Operation 2.1.1 Development of VET qualifications (Priority axis2);
- Operation 4.1.1 Development of project pipeline for OP HRD (Priority axis 4);
- Operation 4.2.1 Supporting Operating Structure in the implementation of the Operational Programme (Priority axis 4).

The following audit areas were covered during the audit of operations:

- a) Operation's compliance with 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.

Following bodies have been covered during the audit:

- Ministry of Finance – Directorate for Finance and Contracting of the EU Assistance Funds (CFCU) - Implementing Body/Final Beneficiary (IB/FB);
- Ministry of Labour and Social Welfare (MLSW) - Body Responsible for the Operational Programme (BROP) and Body Responsible for Priority/Measure 1.1; 4.1 and 4.2;
- Ministry of Education (MoE) – Body Responsible for Priority/Measure 2.1 and
- National Fund (NF).

1.4.3. Follow- up activities

a) Follow-up as a part of another audit engagement

During each individual system audit, the follow-up of findings and recommendations from previous audit(s) is regularly performed, which is then a constituent part of each individual system audit report. Therefore, during the system audits in MLSW (BROP/BRPM), CFCU (IB) and NF, we also performed the follow-up of the findings and recommendations given in the previous audit reports (conducted in 2015).

b) Follow-up as a separate activity before issuing the AAAR and the AAO

In December 2016 the AA performed follow-up of the implementation of recommendations from previous audits (audits carrying 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: Ministry of Education; Ministry of Science; Ministry of Labour and Social Welfare; Directorate for Finance and Contracting of the EU Assistance Found (CFCU) and National Fund.

After the Follow-up, in December 2016, we prepared separate Audit Recommendations' Status Reports for each body which is kept in our audit file. For detailed information on our follow-up approach, see Section 5.2 of this AAAR. Results of follow-up activities are described in Section 5.3. and in Section 8 of this report.

2. SUMMARY OF FINDINGS

As it was already mentioned in Section 1.4 Audit scope, during 2016 the AA was carrying out system audits, audit of operations and Follow-up of the findings and recommendations given in the course of system audits.

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 four bodies of Operating structure and also in National Fund, which is common body to programmes 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 system audits conducted in the reference period

Audited body	System audits		
	Major	Intermediate	Minor
MoE	-	6	4
MoS	-	3	4
MLSW	-	4	6
CFCU	-	4	3
NF	-	2	3

There were no transaction findings. When it comes to audit of operations, we identified 1 (one) major and 2 (two) intermediate system findings.

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

2.1. Summary of findings from system audit

During 2016 system audits of MoE (BRPM), MoS (BRPM), MLSW (BROP/BRPM), CFCU (IB) and NF were carried out. In late November and during December 2016, as a separate

activity, we performed Follow-up of the findings and recommendations given in aforementioned system audits. Number of system findings per audited area/process in these bodies is given in table below.

Table 2: Number of System findings per audited area/ process

Audit Process	MoE	MoS	MLSW	CFCU	NF	Total
Internal Organization and Human Resources	3	3	-	-	-	6
Administrative Issues	-	-	3	2	1	6
IT Policy	-	-	3	1	1	5
Internal control	-	-	-	-	1	1
Internal Audit	1	-	-	-	-	1
Risk Management	2	1	-	-	-	3
Irregularities	1	1	1	2	1	6
Publicity and Visibility	1	1	0	-	0	2
Statement of Assurance	0	0	-	-	-	0
Contract procedures	1	0	1	0	-	2
Contract Impl_OTSC	-	-	-	0	-	0
Financial Management	-	-	0	0	-	0
Communication and Reporting	1	1	1	1	1	5
Programme monitoring	-	-	1	0	-	1
Programme evaluation	-	-	0	-	-	0
Accounting	-	-	-	1	-	1
Total	10	7	10	7	5	39

The total number of findings in aforementioned five system audits is 39 out of which 19 intermediate and 20 minor.

The most of findings were identified regarding internal organization and human resources management (insufficient number of trainings, WLA, Recruitment Plan, inadequate job descriptions), administrative issues (written procedures, inadequate equipment for keeping confidential documents) and irregularities (written procedures).

The number of findings related to **internal organization and human resources** is 6 out of which 3 intermediate and 3 minor. During the audit engagement in Ministry of Education, Ministry of Science and CFCU, we identified that employees in these entities did not attend sufficient number of trainings related to risk management, the preparation of tender documentation, strengthening of capacities for issuance of Statement of Assurance and irregularities. Also, we found that MoS did not prepare WLA for 2016 in a proper way and Recruitment Plan for 2016. Given that the human resources is the most important factor for functioning of all systems and taking into consideration the fact that the most of our findings are related to this issue improvements are needed.

When it comes to **administrative issues** the most of findings (five) were minor and related to written procedures while the finding related to lack of adequate archiving space was intermediate. During the audit engagement, we determined mismatching of the chapter Administrative issues and the Financing Agreement.

Analysing the MoP, Chapter **Irregularities** we determined that there are certain discrepancies in written procedures and that employees in CFCU did not have sufficient training related to irregularities and fraud.

During our audit engagement in the process of **Communication and reporting**, we identified lack of evidence on organizing and holding internal meetings in all audited bodies.

Regarding **IT policy** the most of findings is related to inadequate archiving and back-up of data as well as to raising awareness about IT security and organizing trainings related to this issue. Total number of findings related to this area was 5 out of which 4 intermediate and 1 minor.

Concerning the process of **Risk Management**, our findings in MoE and MoS were related to inadequate Risk Action Plans (RAP), submitting Risk Registers to Risk Management Coordinator (RMC) and absences of Risk Managers (RM) from Risk Management Panels (RMP). All findings related to this area were intermediate.

Auditing the **contract procedures** in MoE it is determined that activities within measure 2.1 related to supply of equipment have not been done according to the procurement plans from 2015. Also, in MLSW (BROP/BRPM) is determined that there is no evidence that tender documentation has been checked by HOS/BROP, as described in MoP V5. Both of these two findings were intermediate.

Analyzing documentation and data in CFCU relating to **accounting** it is determined that drawing up of the report Cash-flow statement system does not pull complete and accurate data but data are entered manually, while with drawing up Balance sheet ineligible expenditure is entered manually.

During the audit engagement in MoE it is determined that the position of the Head of the **Internal Audit** Department is vacant.

When it comes to process **Programme monitoring** in MLSW, it is determined that Annex 1 Monitoring Report (AIR) in the MoP within Chapter Programme monitoring is not harmonized with template for the AIR annexed to the Financing Agreement.

Auditing the process of **internal control** in NF, we determined that procedures for the integrated/consolidated registering of identified internal control weaknesses exist, but Register of Internal control weaknesses has not been updated with all weaknesses identified in the previous period, therefore further procedures related to the ICWs are not respected.

During performance of audit in area **Publicity and Visibility** in most of bodies, we determined that Publicity Officer did not attend the meeting of POs at the level of Operating Structure, as well as that there were no evidence related to communication and cooperation of POs from BRPM with other publicity officers from other bodies of OS.

As already mentioned we audited **written procedures** related to above mentioned audit areas. AA recommended harmonization of written procedures with national legislation, harmonization between some chapters of the MoP, harmonization between Sections in some chapters of the MoP and harmonization of some templates with explanation following the template.

However, during our follow-up we determined that improvements have been made with regard to the above mentioned findings. Recommendations provided will be further followed up in the upcoming period.

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).

A detailed list of all findings, categorised by their level of importance (major, intermediate and minor) is laid down in Annex B to the AAAR.

2.2. Summary of findings from audit of operations

The audit of operations in the framework of the Operational Programme Human Resources Development 2012-2013 (HRD) has been performed on the operations for which the expenditure were paid and declared to the European Commission (EC) in the period from 1st January 2015 until 31st December 2015. The audit encompassed the operations for which the expenditure in the total amount of EUR 529.340,60 (100% of the overall declared expenditure) was declared to the European Commission (EC).

The audit encompassed the expenditure for four operations which were related to the advance payments of three contracts (operations 1.1.1; 2.1.1 and 4.1.1) and one direct award within measure 4.2 for technical assistance. We have performed checks which could have been performed considering the nature of the paid expenditure (advance payments) and relevant checks of all documentation related to direct award for technical assistance.

On the basis of the work performed we have obtained a reasonable assurance that no ineligible expenditure has been identified in the examined expenditure declared to the EC and the expenditure declared corresponds to the accounting records and supporting documents held by the final beneficiary (CFCU).

However, during the audit we identified some system findings. Namely, audited operations were not covered by an agreements which shall be signed between the Operating structure and the End Recipients of assistance.

Also, we identified lack of Tender opening checklist for two service contracts, lack of minutes from EvC meetings, certain absences of members of EvC from meetings in evaluation process for two service contracts.

2.3. Conclusion on the functioning of the management and control system for the period ended on 30th September 2016

Our conclusion on the functioning of the management and control system for the period ended on 30th September 2016 is based on the audit work carried out during 2016 calendar year. In that period AA carried out system audits, audit of operations and the follow-up of the findings and recommendations given in the course of system audits. Final system audit Report of each body was submitted to the EC-DG EMPL. List of audit reports submitted to the Commission - DG EMPL is given in Annex F to this Report. Also, during 2016 AA continuously monitored the implementation of OPHRD and collected the information on the changes in the system.

We have carried out examinations of the effective functioning of the management and control systems in auditees to the extent possible at the current stage of implementation of OPHRD under the period of performing our audits.

AA has performed system audits in four OS Bodies in Component IV and in NF with the general assessment of MCS - works, but some improvements are needed. We summarized the findings of each body according to the audit area. We also stress the fact that there are no major findings when system audits are concerned. A detailed description of the principal findings identified and of accompanying recommendations provided are presented in the Chapter 5 - Systems audits (Section 5.3).

The audit of operations encompassed the operations for which the expenditure concerns the advance payments and real costs. We have performed the checks that could have been performed considering the nature of the paid expenditure (advance payments). During the audit of operations we have identified only three system findings out of which one major and two intermediate. There were no transaction findings and financial errors were not identified during the audit. A detailed description of the findings identified during the audit of operations are presented in the Chapter 6 – Audits of sample of operations.

Based on the audit work performed we have obtained reasonable assurance that the expenditure declared in the amount of EUR 529.340,60, under the audited Operations 1.1.1, 2.1.1, 4.1.1 and 4.2.1 in the reference period 01.01.-31.12.2015 is, in all material aspects, legal and regular.

On the basis of the performed follow-up activities we determined that improvements have been made. Results of follow-up activities related to the principal findings can be found in Section 5.3.

Therefore, on the basis of the work done in the system audits and audit of operations and taking into account the results of follow-up activities we consider that it is appropriate to conclude that the established management and control system for the period 01st October 2015 – 30th September 2016 functioned effectively and the expenditure declared in the reference period is legal and regular. Consequently, for the period ended on 30th September 2016 we will issue an unqualified opinion.

A detailed list of all findings, categorised by their level of importance (major, intermediate and minor) is laid down in Annex B to the AAAR.

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 1st October 2014 to 30th September 2015 and in the period 01st October 2015 until mid-December 2015.

3.1. Changes in the MCS since last AAAR

- **Competent Accrediting Officer**

At the session held on 19th 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 of Mr. Raško Konjevic as new Minister of Finance. Decision on appointment of persons responsible for carrying out the decentralized management of pre-accession EU funds published on 04th November 2016 (OG MN No. 69/16).

- **Head of BRPM in the Ministry of Education**

In accordance with the provisions of Lex Specialis, adopted by the Government of Montenegro on May 19th 2016, Ms Mubera Kurpejovic is appointed to perform the role of Parliament member while the position of the Director General of the Directorate for Higher Education (for IPA indicated tasks) become vacant. As a temporary solution, tasks and assignments of the Head of BRPM/SPO, by relevant Substitution Plan, are taken over by Mr Marko Vukasinovic, who is officially Head of Department for International Cooperation.

Mr Dragan Darmanovic (NAO) introduced European Commission - Directorate General for Employment, Social Affairs and Inclusion to the forthcoming change in the letter 06-4624/1 from 4th October 2016 (copied to AA).

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

Government of Montenegro on its session held on 28th 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, Ms. Ana Vukadinović, on her personal request. At the same session, the Government appointed Ms. Ivana Glišević Djurović as Acting Director General as well as Strategic Coordinator for IPA Component III and IV. This Decision published on 7th September 2016 (OG MN 58/2016).

The NAO informed the EC (with a copy of notification to the AA) on 3rd 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 decentralized management of pre-accession EU funds published on 04th November 2016 (OG MN No. 69/16).

In respect to other bodies participating of the Programme, no significant changes have occurred.

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

- **Competent Accrediting Officer**

At the assembly session, held on 28th November 2016, Parliament of Montenegro made a Decision of the Prime Minister and members of 41st Government of Montenegro. This Decision (No 00-33/16-6/4) has been published on 1st December 2016 (OG MN No 74/2016).

New Minister of Finance is Mr. Darko Radunović.

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

Annual Audit Work Plan for the period 01st October 2015 – 30th September 2016 for IPA Component IV– Human Resources Development, was prepared in September 2015. The Auditor General of Audit Authority approved it and sent to the European Commission with copy to National Authorising Officer on 30th September 2015.

In the AAWP for 2015/2016 we planned system audits in five bodies which participate in management and implementation of IPA Component IV.

According to Audit Authority's Manual of Procedures (Version 2.1) in the context of its audit work, the Audit Authority reports on the basis of work carried out during the period from 01/10/year N to 30/09/year N+1 as at 31/12/year N+1. The audits of operations are carried out on the expenditure declared to the Commission in year N.

By the time of the preparation of AAWP (September 2015), there were no payment made, no declared expenditures, so in time of preparation of this plan, it was not possible to plan carrying out audit of operations.

Due to fact that on 31st December 2015, National Authorising Officer submitted Certification of Expenditure and Interim Payment Application to the European Commission, the need for updating of Annual Audit Work Plan for the period 01st October 2015 – 30th September 2016 for IPA Component IV – Human Resources Development has appeared.

In this manner AA updated its AAWP in April 2016 by planning to carry out audit of operations for which expenditure was declared in 2015. Updated AAWP was submitted to EC-DG EMPL on 13th April 2016.

5. SYSTEMS AUDITS

This AAAR is prepared by the AA and all activities in the course of 2015-2016 were performed by the AA.

The summary list of the 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 01st October 2015 – 30th September 2016.

In the course of preparing the AAWP, i.e. in September 2015, the risk assessment was performed on the basis of the information available and current at that time. Risk assessment was performed at the level of the bodies participating in the management and implementation of OPHRD-IPA Component IV. Risk assessment was performed for the purpose of determining the priorities in conducting system audits through bodies participating in the management and implementation of IPA Component IV.

Risk factors which were identified and taken into account during risk assessment at the level of the bodies were as follows: results of previous audits; status of implementation OP; the monetary amount of the assistance administered by the institution; time passed since the last

audit engagement by AA; staffing (sufficiency, competence, experience); changes from the previous audits (organizational, procedures, employees).

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 OPHRD.

Taking into consideration the above mentioned, especially level of implementation of OP and available AA's resources, we decided that audit period from January until September 2016 include all (five) bodies which participate in management and implementation OPHRD - IPA Component IV.

In accordance with conducted risk assessment, system audits have started in the riskier bodies for this phase of implementation (MoE-BRPM, MoS-BRPM, MLSW-HOS/BROP/BRPM), and after that we continued system audit in CFCU and NF.

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

5.2. Follow-up activities

In accordance with the IPA Framework Agreement, Annex C, Chapter 5 (Systems Audits) information should be provided on the follow-up of the audit findings. In 2016 AA carried out the follow-up of the findings and recommendations given in the course of previous audits. Consequently, before stating the principal findings and conclusions, recommendations and corrective measures applied, we will briefly describe the follow-up approach of the AA.

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".

During each individual system audit, the follow-up of findings and recommendations from previous audit (in case the entity was already audited) is regularly performed, which is then a constituent part of each individual system audit report. Therefore, the follow up as a part of system audits in MLSW (BROP/BRPM), CFCU (IB) and NF was performed regarding the findings and recommendations given in system audit reports conducted in these bodies in 2015. After receiving the responses and the documentation on the fulfilment of recommendations

from all bodies, we conducted interviews with the employees responsible for the management and implementation of the operational programme in bodies in which the interview was needed. After analyses and reviewing the submitted documentation, we assessed the status of the individual recommendation with the respective explanation.

In the period November – 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:

- In late November 2016 we sent to all bodies, in which we performed system audits during the previous period, the Table with the summary of findings and recommendations from previous audits. We informed them that we need 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 the 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.
- At the beginning of December 2016 we received all the information we requested from all bodies. After receiving the responses and the documentation on the fulfilment of recommendations from all bodies, we conducted interviews with the employees responsible for the management and implementation of the operational programme in bodies in which the interview was needed. Our intention was to discuss certain issues and request additional documentation on the spot, wherever needed.
- After the analysis of the received responses, documentation collected, and interviews conducted, we assessed the status of the individual recommendation with the respective explanation. In mid-December 2016 we prepared a separate Audit Recommendations' Status Report for each body.

For the audits which the AA performed in 2016, results of Follow-up activities are described in the section 5.3 of this report.

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

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

Further below we outline the description of the most important findings identified and conclusions reached through audits, recommendations provided for correcting the findings as well as information on the measures undertaken for the purpose of resolving the findings with regards to the audited processes and individual bodies and authorities within the system. Conclusions reached through audits and conclusion on the functioning of MCS within OPHRD for period ended on 30th September 2016 are given afterwards.

Principal findings (intermediate) identified in the particular audit areas are as follows:

a) Internal Organization and Human Resources

Findings related to Trainings, WLA and Recruitment Plan:

All employees need to be encouraged to attend conferences, seminars and trainings that would enhance their professional skills. Participation shall be approved by their superiors and be demonstrably beneficial to their work.

However, during the audit engagement in Ministry of Education (Department for international cooperation and European integration), Ministry of Science (Division for international programs and EU integration) and CFCU, we identified that employees in these entities (who are members of the Body of Operating Structure – Component IV) did not attend sufficient number of trainings. The key members of the organization's staff of MoE and MoS did not attend sufficient trainings related to risk management and strengthening of capacities for issuance of Statement of Assurance. Also, we found that staff of MoS did not have proper trainings related to the preparation of tender documentation and that the employees in CFCU did not have sufficient trainings related to irregularities. The Training Maps (Training plan of MoE for 2015 and Training plans of MoS for 2015 and 2016) did not contain any training related to risk management and the Training Map of CFCU for 2016 did not contain training related to the irregularities and fraud or any field related to the irregularities. It is determined that, until the moment of audit performing, the Training map of MoE for 2016 has not been done.

Certain deficiencies regarding WLA and Recruitment Plan in MoS has been identified. Namely, the employee who performed the function of Programming Officer II was engaged by the Decision on the fixed-term period employment. The Decision on termination of employment of this employee was made by the end of March 2016 so this position has become vacant. However, when BRPM was preparing the WLA for 2016, previously mentioned employee had been involved in assessment of workload for the whole year although it was known that his/her work contract would soon expire. Also, the Recruitment Plan for 2016 has not been made in compliance with needs and given situation.

Recommendations:

We recommended timely making a detailed training plan for employees for the following period after the implementation of adequate assessments in order to provide sufficient number of trainings which are significant for performing employees' tasks relating to risk assessment, issuing SoA and preparation of tender documentation. All trainings should be registered in the Training register in an adequate way.

Taking into consideration that competent and trained staff is one of the basic conditions for adequate dealing with irregularities, we recommend organizing the trainings for all employees in CFCU so that they could timely detect and report identified irregularities and take appropriate corrective measure.

We recommended to MoS that the number of the lacking employees should be properly shown in the WLA for 2016 and accordingly recruitment plan should be adopted.

Results of Follow-up:

As MoE (BRPM) submitted Training Map for 2016 and updated Training register according to the given recommendation and taking into account that, according to the enclosed training registers (for each employee and cumulative), we are convinced that MoE fulfilled the recommendation and consider **finding closed**.

MoS submitted WLA for 2016 which is corrected in accordance with audit recommendation. Enclosed Recruitment plan is prepared in line with the updated version of WLA. Also, Training map for 2016 is updated in accordance with recommendations. According to actions taken by the MoS staff and the submitted documentation we find those two recommendations fulfilled, with emphasis that training and professional development of employees need to be continuous. **Findings closed.**

When it comes to finding and recommendation given to CFCU, actions on implementation of recommendation are undertaken. Irregularity Officer prepared training for all CFCU employees. In CFCU's response we received correspondence related to organization of additional training. Based on actions taken by CFCU's staff and enclosed documentation we find this **finding closed.**

b) Risk Management

Findings related to Risk Action Plan and absences of Risk Managers from RMP:

Regarding to Risk Management process, our findings in MoE and MoS were related to inadequate Risk Action Plans (RAP), submitting Risk Registers to Risk Management Coordinator (RMC) and absences of Risk Managers (RM) from Risk Management Panels (RMP).

According to the procedures relating to the risk management described in MoP, with regards to the operational concepts of risk analysis it is a duty of the IPA authorities at the level concerned to define appropriate risk response with concrete mitigating actions including deadlines and responsible individuals. Appropriate action plans, corresponding to the selected risk responses, should be established to ensure that concrete measures are taken to address the risks without delay.

Also, the RM shall collect Risk Alert Forms (RAF), compile Risk Register and RAP to the RMC at the latest before the regular meeting of the RMP. Also, RM of BRPM is obliged to participate in the meetings of RMP at which both risks related to BRPM and to the whole IPA structure are discussed.

Auditing risk management process in the Ministry of Education and Ministry of Science, it is determined that MoE as IPA body responsible for Priority/Measure 2.1 did not develop appropriate Risk Action Plan according to the written procedures within MoP version 5; Risk Manager of the MoS has not submitted any RAF and Risk Register to RMC and RMs from both ministries (MoE and MoS) did not attend at least one meeting of RMP.

Recommendations:

Our recommendation to the MoE was to develop appropriate Risk Action Plans with concrete risk responses including precisely defined deadlines and individuals responsible for taking selected corrective measures

Also, we recommended that Risk Managers from both ministries (MoE and MoS) participate at each organised Risk Management Panel and in case of inability of RM to attend the meeting, s/he should find an adequate substitution in compliance with the Substitution Plan.

Results of Follow-up:

MoE (BRPM) established and submitted the RAP which has been updated according to the recommendation and attendance sheet from RMP held in July 2016 as a proof that RM attended this meeting so we consider those two **findings closed.**

Regarding the attendance RMP by RM from MoS, we found that RM did not attend this meeting held in July 2016. We consider that this finding remains **open**.

c) Administrative Issues

Findings related to inadequate equipment for keeping confidential documents:

Conducting system audit in MLSW it is determined that there is no adequate place for maintenance of confidential files in the Division for programming and implementing EU funds (lack of lockers with the possibility of locking for safe keeping of confidential documents). Lack of proper equipment for keeping confidential documents may lead to possible loss of confidential and sensitive information.

Recommendations:

Recommendation to MLSW was to procure equipment and to create adequate conditions for storing and maintaining documentation with confidential content.

Results of Follow-up:

According to the auditees' response, it is planned that the equipment (lockers with the possibility of locking for safe keeping of confidential documents) for the needs of Division for programming and implementation of EU funds acting as BROP/BRPM be procured within the Measure 4.2. of the OP HRD via tender for supply contract.

However, the tender was launched on 25 July 2016 and cancelled on 9 November 2016, because no suitable tender had been received. The tender is going to be re-launched by the end of 2016 or at the beginning of 2017.

Bearing in mind previously mentioned, we find this finding **open** and we prolong the implementation deadline on 1st Q 2017.

d) IT Policy

Findings related to trainings on IT security, back up storage and business continuity plan:

IT procedures are described in the Manual of Procedures, Part I, chapter IT Policy. Annex 1 of this chapter prescribes detailed procedures for back up of data, archiving data, user coordination and reconciliation. According to the prescribed procedures, the IT Coordinator shall ensure that the IPA Body staff receive necessary training on IT security issues. With regard to IT Security policy in the IPA Body, the User coordinator is responsible for, inter alia, coordinating and initiating user training in IT Security. However, during audit engagement in MLSW, CFCU and NF we identified some weaknesses regarding IT policy.

Namely, during the audit in MLSW on the basis of reviewed documentation and conducted interviews, we concluded that BROP/BRPM staffs did not have any training related to IT security policy. Additionally, procedures for backup are not performed in accordance with prescribed procedures. There is no defined back up storage. So, there is a risk of loss of data in case of error condition in information systems in which information is destroyed by failures or negligence in storage, transmission, or processing. Bearing in mind the importance of IT security, using file servers, having adequate and secure data storage, BROP/BRPMs staff should have some trainings with regard to this policy and proper back up storage.

CFCU is currently using PIS and accounting software, two separate but connected systems. As far as the existing systems are concerned, the access is secured in a way that user rights and

roles are defined, which clearly divides obligation of entering data in the system, in compliance with competences. Therefore, with user rights and unique password the systems are accessed with a view of archiving necessary data from its competence. IT procedures, prescribed by the Manual are respected, in terms of the fact that employees in the Directorate signed Annex 5 from the Chapter IT policy, i.e. Declaration on knowledge with the Instruction for access, usage and security of computers from the system of the Ministry of Finance, as well as Certificate on takeover of equipment of the Ministry of Finance. Every password meets minimum prescribed conditions. However, the procedure of archiving and back-up of data has not been solved.

When it comes to NF, business continuity plan has not been developed.

Recommendations:

We recommended to MLSW to initiate and provide trainings related to IT Security policy for BROP/BRPM's staff. Providing adequate backup of data was recommended to MLSW and CFCU while developing the business continuity plan with clear responsibilities and procedures was recommended to NF.

Results of Follow-up:

Reviewing the documentation enclosed by MLSW and conducting interviews with its representatives, we are convinced that IT Coordinator in the Ministry of Labour and Social Welfare held training related to IT security for the BROP/BRPM staff in October 2016. Also, User Coordinator from BROP/BRPM participated at the training on "Cyber Security" organised by the MIST and HRMA on 29th November 2016. We find this finding **closed**.

However, MLSW and CFCU still have not provided adequate back up of data. According to their responses, in order to solve this issue, it is planned that the back-up equipment will be procured within the Measure 4.2. of the OP HRD via tender for supply contract. The tender was launched on 25 July 2016 and cancelled on 9 November 2016, because no suitable tender had been received. The tender is going to be re-launched by the end of 2016 or in the beginning of 2017.

We consider that these findings remained **open** and implementation deadline is prolonged to 1st Q 2017.

Related to IT Policy Business Continuity Plan is not developed in NF, so finding is still **open**.

e) Contract procedures

Finding in Ministry of Education (BRPM) related to preparing technical specifications:

According to the PRAG (section 2.4.1 and 4.3) and MoP Chapter Contract Procedures BRPM is obliged to prepare technical inputs, do budget estimate based on market research, draw up draft Contract Notice and Summary Contract Notice and submit them to IB for further processing.

Auditing the contract procedures in Ministry of Education it is determined that activities within measure 2.1 related to supply of equipment have not been done according to the procurement plans from 2015. Until the moment of audit performance, Ministry of Education as Body responsible for priority axis and measures in the field of education, in particular the measure 2.1 did not provide technical inputs (Technical Specifications) to the IB in order to take further activities for implementation of supply contract. Relating to implementation of this contract, BRPM submitted to the IB only draft Prior Information Notice in April of 2015.

Recommendation:

We recommended to the BRPM to provide adequate and timely inputs to the IB in order to start implementation of supply contract within measure 2.1. according to the last procurement plan.

Results of Follow-up:

MoE sent Updated version of Technical Specifications to CFCU in April 2016. This version was updated upon comments and suggestions on TS made by the FWC expert and CFCU. Final version of the TS was sent to the CFCU at the beginning of May 2016.

Bearing in mind previously mentioned, we consider this finding **closed**.

Finding in Ministry of Labour and Social Welfare (BROP/BRPM) related to checking of tender documents by HOS:

According to the Manual of Procedures of Operating structure – MoP V5 section relating to BROP/BRPM, Chapter Contract Procedure -Introduction- Section III Management Verifications performed by HOS/BROP, the following is set out: "The HOS/BROP performs the sample checking of tender documents using the checklist, which can be found in the Chapter on Management Verifications. Tender documents prepared by the IB and selected by HOS based on risk assessment and sample selection shall be submitted to HOS for management verifications. HOS/BROP shall check tender documentation from the point of view of relevance to the approved Operational Programme: Specific Objective of the Measure; Main types of Operations; Final Beneficiaries; Budget."

However, it has been determined by audit that in Chapter Management Verifications there is no check list relating to tender documentation check and the procedure of tender documentation check is not described. Also, there is no evidence that tender documentation has been checked by HOS/BROP, as described in MoP V5.

Recommendation:

Our recommendation was to develop an adequate checklist for the check of tender documentation, and implement described procedures in compliance with the degree of implementation of specific Measures from Operating programmes.

Results of Follow-up:

According to enclosed documentation, the proposal for introducing these changes in the new version of the BROP/BRPM MoP was discussed with the NF. We consider that recommendation is **not implemented**. Deadline for implementation is prolonged to 1st Q 2017.

f) Irregularities

Findings related to written procedures:

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, most of findings and recommendations are similar to all IPA bodies. During audit engagement in CFCU and NF, we identified that MOP chapter "Irregularities", point 3 "type of irregularities" is not aligned with the types of the irregularities listed in the Annex XVIII of the Financial Agreement.

There are two flowcharts which are not aligned, furthermore in the first step preliminary damage assessment it is not clear who is performing, and it is not clear who has responsibility

to confirm irregularity. Annexes listed in the flowchart are not aligned with annexes listed in the folder of documents.

There is no reference to annexes related to irregularities, furthermore it is not clear which annex is related to the immediate irregularity report and supporting documents (standard letter; completed standard form of the irregularity report) nor for quarterly report and supporting documents (completed standard forms; standard letter for quarterly irregularity reporting). Template for standard letter for immediate irregularity report is not developed. Template for special report is not developed.

Within the MoP chapter irregularities there is no communication line between IO and accountant in order to record amounts in debtor ledger as well as template for regularly reconciliation of information. Also, there is no line in the given flowcharts. There is only the description of obligation of recording of irregularities in accounting system.

Recommendations:

According to above mentioned, improvements in this chapter of MoP related to the following are needed: types of irregularities within MOP should be aligned with types of irregularities listed in the annex XVIII of the Financing Agreement; flowcharts need to be well developed, including all reporting lines; alignment of the flowcharts is necessary, including narrative description of each step in the process; annexes within flowchart should be aligned with annexes listed in the folder; referencing of the annexes within manual, especially for immediate and quarterly report and supporting documents should be included; template for standard letter for immediate irregularity report should be developed; template for special report should be developed.

Results of Follow-up:

According to the submitted documentation the CFCU initiated the necessity to align Chapter “Irregularities” with our recommendations so certain progress is made. Also, according to NF’s response, NAO has already conducted majority of activities in respect to the recommendation given. Irregularity Officer within NFD, in communication with Irregularity Officers from IPA Bodies, worked on upgrade of MoP/Chapter on Irregularities.

Since the implementation deadline has not expire yet, we will monitor the implementation of the recommendations.

g) Accounting

Finding related to accounting software:

Analyzing documentation and data in CFCU relating to this process, we gained assurance that requirements related to: set up of accounting system, principles, design of the system, records and controls, financial statements, chart of account and reconciliation, are mainly fulfilled.

The CFCU accounting of transactions relating to EC financial assistance and co-financing is based on double entry, analytical and accrual basis accounting system. The accounting system is designed to account for: receivables, liabilities, revenues, expenditures and transactions on Single Treasury account related to the CFCU.

Recording of operations/transactions is performed in the accounting software.

It is determined by the audit that during drawing up of the report Cash-flow statement system does not pull complete and accurate data but data are entered manually, while with drawing up Balance sheet ineligible expenditure is entered manually. Also, the existing system does not allow starting states on the off-balance sheet positions at the beginning of the year but they are

also entered manually.

Recommendations:

In order to provide complete and accurate reporting, it is necessary to provide data entry through the system and reflection of all data necessary for reporting (drawing up reports).

Results of Follow-up:

Relevant bodies (NAO, NF, CFCU and DPW) initiated and started with development of new Information system. The new Information system for IPA I and IPA II projects is developed as one module of SAP system and it includes management of contracts, financial management and accounting of all relevant data.

New Information system has just started with implementation in practice. Though the practice and daily work it will be tested in details and in case that there is need for some additional improvements, postproduction phase will last until 31st March 2017 and in that period all necessary corrections in the reports will be done.”

Taking into account above mentioned, progress is made but finding remained **open**. We will monitor the implementation of the recommendation.

h) Communication and reporting

Findings related to lack of internal meetings:

Findings concerning communication and reporting in all audited bodies are related to lack of holding of coordination and internal meetings at the level BROP/BRPM/IB/NF.

Internal meetings at the level BROP/BRPM/IB/NF are not organised on a regular basis. MoP, Chapter Communication and Reporting, predicts that each institution will hold regular meetings of all the staff working on the programmes, typically on a weekly basis or twice per month.

Recommendations:

According to abovementioned our recommendations were directed on implementing activities in the following period relating to preparation and holding of internal meetings at the level of BRPM/IB/NF according to prescribed procedures.

Results of follow-up:

Within follow up activities all bodies submitted evidence (minutes) from organized internal meetings so we consider that this recommendation is implemented and **finding closed**.

i) Internal Audit

Finding related to vacancy of the Head of the Internal Audit Department:

The Rulebook of internal organization and systematization of the Ministry of Education foresees 4 job positions in total in the Internal Audit Department.

However, only 2 internal auditors are employed. Job positions of Head of the Internal Audit Department and junior internal auditor are vacant. Also, the fact that the key role of the Head of the Internal Audit Department is missing, may have an impact on the quantity or quality of audits that are needed according to the annual audit plan.

Recommendations:

We recommended filling the vacancy of the Head of the Internal Audit Department in order to ensure effective functioning of the Internal Audit Department.

Results of follow-up:

Bearing in mind that the position of the Head of the Internal Audit Department is still vacant, we consider that this finding remains **open**.

Taking into consideration auditee's response, we set up new deadline for implementation for Q1 2017.

6. AUDITS OF SAMPLE OF OPERATIONS

The audit of operations in the framework of the Operational Programme Human Resources Development 2012-2013 (HRD) has been performed on the operations for which the expenditure was paid and declared to the European Commission (EC) in the period from 1st January 2015 until 31st December 2015. There was only one statement of expenditure declared to the EC in the period concerned and it was related to the advance payments of three contracts (measures 1.1; 2.1 and 4.1) and direct award within measure 4.2 for technical assistance. In accordance with the AA's audit methodology, during the audit we covered the expenditure amounting to EUR 529.340,60, which is 100% of the total expenditure declared to the EC.

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

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

Summary data of the audited operations are presented in the following table:

Priority/ Measure/ Operation		Total expenditure declared (EUR)	Union contribution (EUR)	National contribution (EUR)	Expenditure audited (EUR)	Type of payment
Priority Axis 1: Efficient and inclusive active employment policy measures						
Measure 1.1. Supporting the implementation of the most productive labour market measures for the labour force quality and employment	Operation 1.1.1 Active labour market measures for employability (Service contract)	199.600,00	169.659,88	29.940,12	199.600,00	Advance payment
Priority Axis 2: Enhancing Skills, Knowledge and Competences for Employability and Competitiveness						
Measure 2.1 Supporting the improvement of conditions for development of VET qualifications	Operation: 2.1.1 Development of VET qualification (Service Contract)	149.400,00	126.989,91	22.410,09	149.400,00	Advance payment

Priority axis 4: Technical assistance						
Measure 4.1 Supporting the development of project pipeline	Operation 4.1.1. Development of project pipeline for OPHRD (FW contract)	179.370,60	152.464,90	26.905,70	179.370,60	Advance payment
Measure 4.2 Supporting Operating Structure in the implementation of the Operational Programme	Operation 4.2.1 Supporting Operating Structure in the implementation of the Operational Programme	970,00	824,50	145,50	970,00	Real costs
Total		529.340,60	449.939,19	79.401,41	529.340,60	

6.1. Results of the substantive testing

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

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

The finding relating to the audit of operations within OPHRD 2012-2013 concerns the following:

Finding - Lack of agreements between OS and end recipients:

According to the Financial Agreement for OP HRD article 50 (3) “Each operation financed under the programme shall be covered by an agreement, signed between the operating structure and the end recipient of assistance”.

On the basis of reviewed documentation and interviews conducted with relevant employees, we have concluded that for operations 1.1.1; 2.1.1 and 4.1.1, until the moment of performing this audit, the Operating structure has not signed agreements with end recipients of assistance.

Recommendation:

We recommended that the Operating Structure concludes an agreement with the end recipient(s) of the assistance.

Finding- Tender opening session:

According to the PRAG article 3.3.10.2 Chairperson and Secretary should, inter alia, initial the front page of each original document and the financial envelope.

Reviewing the documentation regarding the tender opening sessions we could not find certain audit trails that aforementioned rules were fully respected. Namely, the Evaluation Committees have drawn up Tender opening reports (Annex b10) which contain explanation of procedure performed during the tender opening including the description of obligations which were fulfilled by Chairperson and Secretary. However, Contracting Authority did not save an envelope of any financial offer of short-listed candidates so we could not confirm that all

envelopes of financial offers are properly initialled by Chairperson and Secretary. Also, there was no fulfilled tender opening checklist (Annex b9 to PRAG) which clearly describes steps needed to be followed in order to complete the tender opening session in line with rules prescribed in PRAG.

Recommendation:

We recommended using the tender opening checklist (Annex b9) and safe keeping the envelopes of received offers in order to ensure the appropriate audit trail that all prescribed procedures regarding the tender opening session are fully respected.

Finding - Responsibilities of the Evaluation Committee members:

According to the PRAG article 2.8.1 “Evaluation committee members must attend all meetings. Any absence must be recorded and explained in the evaluation report”. Responsibilities of all members of the Evaluation Committee (EvC) are prescribed in PRAG article 2.8.3. These responsibilities of the EvC members are also prescribed in the MoP Chapter Contract Procedures Section 1.2.2. Recording and keeping minutes of all meetings of the EvC is a part of these responsibilities.

Reviewing the documentation regarding the meetings of the Evaluation Committees, we have identified that all members of the EvC did not attend every meeting of EvC. Also, we identified that these absences were not recorded and properly explained in the evaluation reports as well as that there are no minutes of all meetings of the EvCs.

Recommendation:

We recommended respecting the rules prescribed in PRAG regarding the attendance of meetings of the EvC and in case of any absence of member of the EvC it should be recorded and explained in the evaluation report.

Also, we recommended keeping the minutes of all the meetings of the evaluation committee and the relevant records and documents.

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 detail 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 MLSW (BROP/BRPM), CFCU (IB) 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 and follow up of findings and recommendations from system audit reports conducted during 2016, as separate activity before issuing the AAAR and the Annual Audit Opinion (AAO).

Summarized overview of the status of all findings 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 Dec 2016	New level of Priority	New deadline
Ministry of Labour and Social Welfare (BROP/BRPM)					
1	Incomplete Work Load Analysis of the BRPM 3	Minor	Closed		
2	Inadequate Internal Organization (BROP/BRPM)	Intermediate /Minor	Closed		
3	Insufficient legal basis for 3 individuals in the BROP/BRPM	Intermediate /Minor	Closed		
4	Inadequate premises (BROP/BRPM)	Intermediate /Minor	Partially implemente	Minor	1 st Q 2017
5	Inadequate description of the Recruitment procedures in the MoP	Minor	Closed		
6	Incompliance of Appraisal Procedures	Minor	Closed		
7	Insufficient number of staff of the Internal Audit Department	Intermediate /Minor	Closed		
8	Inadequate Risk Register template	Intermediate	Closed		
9	Appointment of the Risk Manager	Minor	Closed		
Directorate for Finance and Contracting of the EU Assistance Funds (CFCU)					
1	Understaffing	Intermediate	Closed		
2	Lack of the Recruitment Plan for 2015 and weaknesses in WLA	Intermediate	Closed		
3	Inadequate Substitution Plan	Intermediate	Closed		
4	Incompatibility of decisions on employment with the Rulebook on internal organization and systematization	Minor	Closed		
5	Inadequate description of the Recruitment procedures in the MoP	Minor	Closed		
6	Non-compliance of Appraisal Procedures	Minor	Closed		
7	Insufficient training for performance of audit of EU	Intermediate /Minor	Closed		
8	Inadequate planning	Intermediate	Closed		
9	Insufficient number of trainings for preparation and issuance of Statement of Assurance	Intermediate	Closed		
10	Deficiencies in the process of issuing a Statement of Assurance for 2014	Intermediate	Closed		

11	Inadequate Risk Register template	Minor	Closed		
12	Appointment of the Publicity Officer	Intermediate	Closed		
NATIONAL FUND (NF)					
1	Written procedures - Manual of Procedures	Intermediate	Closed		
2	Preparation of Statement of Assurance	Intermediate /Minor	Open	Minor	1st Q 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		1st Q 2017

Based on the follow-up activities performed related to the findings from previous year we concluded that 25 (about 89,5 %) recommendations out of 28 were implemented, 1 (3,5 %) was partially implemented and 2 (7 %) not implemented.

Regarding the finding number 4 in MLSW, we emphasize that first part of finding related to premises is closed. As for the adequate equipment, it is planned that the equipment for the needs of BROP/BRPM be procured within Measure 4.2 of the OP HRD via tender for supply contract. However, the tender was launched on 25th July 2016 and cancelled on 9th November 2016 because no suitable tender had been received. The tender is going to be re-launched by the end of 2016 or at the beginning of 2017.

Findings 2 and 7 in NF remained open because upgrading of MoP and issuing Statement of Assurance for 2016 is ongoing. We will monitor the implementation of the recommendations.

9. RESOURCES USED BY THE AUDIT AUTHORITY

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

In the reporting period, two auditors worked in the Unit for Audit of IPA Component IV (Authorizing Auditor - Team Leader and Auditor). Audits and follow-up activities in the framework of OS of IPA Component IV were performed by the auditors from this Unit and auditors from the other units of the AA. System audit in NF and follow-up activities were carried out by audit team consisted of auditors from several units of the AA.

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

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

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	Ministry of Education and Sport -BRPM	January–February 2016	System Audit	-
2	Functioning of the MCS	Verify functioning of management and control system	Ministry of Science-BRPM	Mart–April 2016	System Audit	-
3	Functioning of the MCS	Verify functioning of management and control system	CFCU (IB)	May–Jun 2016	System Audit	-
4	Functioning of the MCS	Verify functioning of management and control system	Ministry of Labour and Social Welfare–BROP/BRPM	July–September 2016	System Audit	-
5	Functioning of the MCS	Verify functioning of management and control system	National Fund*	May-September 2016	System Audit	Joint audit for Comp III and IV
OTHER ACTIVITIES						
6	Follow-up	Follow-up of previous audits AA's for the purposes of issuing the AAAR and AAO	MLSW-BROP/BRPM and CFCU	November-December 2015	Follow-up	-
7	Reporting (AAAR and AAO)	Preparing AAAR and AAO for OP within IPA Component IV	-	December 2015	-	-
8	Planning (AAWP)	Preparing AAWP for OP within IPA Component IV for the following reference year (1.10. 2016 – 30.09.2017)	-	September 2016	-	-

* COMMON BODIE FOR COMPONENT IV 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.

Abbreviations used in the Table:

MCS – Management and Control Systems

OP – Operational Programme

HOS – Head of Operating Structure

AAWP-Annual Audit Work Plan

BROP - Body responsible for the Operational Programme

BRPM - Body responsible for Priority/Measure

IB - Implementing Body

AAAR-Annual Audit Activity Report

AAO - Annual Audit Opinion

MCS - Management and Control Systems

CFCU –Central Financing and Contracting Unit

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:

FINDINGS IDENTIFIED DURING THE SYSTEM AUDITS			
Ministry of Education			
No.	Finding	Priority level	Reference to section of report
1.	Inadequately presented organizational structure in MoP	Minor	4.1.1
2.	Inadequate Job description	Minor	4.1.2
3.	Insufficient number of trainings in 2015 and lack of training plan for 2016	Intermediate	4.1.3
4.	Lack of holding of coordination and internal meetings at the level BRPM	Intermediate	4.2.1
5.	Unfilled vacancies in the Internal Audit Department	Intermediate	4.3.1
6.	Inadequate Risk Action Plan (closed)	Intermediate	4.4.1
7.	Absence from Risk Panel	Intermediate	4.4.2
8.	Lack of evidence on cooperation with other PO and absence of publicity officer from the meeting	Minor	4.5.1
9.	Providing technical inputs for supply contract within measure 2.1	Intermediate	4.6.1
10.	Non-compliance between flowchart and scheme with described procedures within Chapter Irregularities	Minor	4.7.1
Ministry of Science			
No.	Finding	Priority level	Reference to section of report
1.	Inadequate Job Description in the Rulebook of the Ministry of Science and inadequate description in the MoP	Minor	4.1.1
2.	Inadequate WLA and lack of Recruitment Plan	Intermediate	4.1.2
3.	Insufficient trainings of BRPM's staff	Intermediate	4.1.3
4.	Lack of evidence on organizing and holding internal meetings at the level of BRPM	Minor	4.2.1
5.	Absence from Risk Panel	Intermediate	4.3.1

6.	Non-compliance of flowchart and scheme with described procedures within Chapter Irregularities	Minor	4.4.1
7.	Assignment of the Publicity Officer	Minor	4.5.1
Ministry of Labour and Social Welfare			
No.	Finding	Priority level	Reference to section of report
1.	Verification of tender documentation by HOS/BROP	Intermediate	4.1.1
2.	Non-existence of conditions for maintenance of confidential data	Intermediate	4.2.1
3.	Inadequate description of procedures relating to maintenance of documentation in MoP	Minor	4.2.2
4.	Lack of record in internal register book	Minor	4.2.3
5.	Non-compliance between flowchart and scheme with described procedures within Chapter Irregularities	Minor	4.3.1
6.	Annual Implementation Report	Minor	4.4.1
7.	Nomination of User Coordinator	Minor	4.5.1
8.	Trainings related to IT security	Intermediate	4.5.2
9.	Back up of data	Intermediate	4.5.3
10	Lack of holding internal meetings at the level BRPM	Minor	4.6.1
Directorate for Finance and Contracting of the EU Assistance Funds (CFCU)			
No.	Finding	Priority level	Reference to section of report
1.	Insufficient trained staff	Intermediate	4.1.1
2.	Written procedures related to the Irregularities	Intermediate	4.1.2
3.	Inadequate archiving space	Minor	4.2.1
4.	Written procedures related to the Administrative Issues	Minor	4.2.2
5.	Accounting software	Intermediate	4.3.1

6.	IT Policy	Intermediate	4.4.1
7.	Deficiencies in the organization of a coordination meeting at the level of the IB	Minor	4.5.1
National Fund			
No.	Finding	Priority level	Reference to section of report
1.	Written Procedures related to the Irregularities	Intermediate	4.1.1
2.	Written Procedures related to Administrative issues	Minor	4.2.1
3.	Changes in the Management and Control system	Major	4.3.1
4.	Internal Control Weaknesses	Minor	4.3.2
5.	Business continuity plan	Intermediate	4.4.1
6.	Lack of holding internal meetings at the level of NF	Minor	4.5.1

FINDINGS IDENTIFIED DURING THE AUDIT OF OPERATIONS			
Directorate for Finance and Contracting of the EU Assistance Funds (CFCU)			
No.	Finding	Priority level	Reference to section of report
1.	Lack of agreements between OS and end recipients	Major	2.1.1
2.	Tender opening session	Intermediate	2.1.2
3.	Responsibilities of the Evaluation Committee members	Intermediate	2.1.3

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

Annual Audit Work Plan (AAWP) for IPA Component IV– Human Resources Development for the period from 01st October 2015 to 30th September 2016, is submitted to the EC-DG EMPL and NAO on 30th September 2015 (Annex A of this report).

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 fact that on 31st December 2015 NAO submitted first Certification of Expenditure and Interim Payment Application to the EC the need for updating of Annual Audit Work Plan for the period 01st October 2015 – 30th September 2016 for IPA Component IV – Human Resources Development has appeared.

By updating Annual Audit Work Plan (AAWP) for the period from 01st October 2015 to 30th September 2016 AA it was planned to carry out audit of operations for which expenditure was declared in 2015. Carrying out audit of operations was planned in period July-September 2016.

Updated AAWP was submitted to the EC- DG EMPL and NAO on 13th April 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 01st OCTOBER 2015 UNTIL 30th SEPTEMBER 2016

Date of performance of the system audits	Programme / system audited	Auditing entity	Expenditure declared in reference year EUR	Total cumulative expenditure declared EUR	Basis of selection of the programme²
January - March 2016	OPHRD CCI 2007 ME 05I PO 001	Ministry of Education - BRPM	*529.340,60	*529.340,60	Risk Assessment
March - April 2016	OPHRD CCI 2007 ME 05I PO 001	Ministry of Science - BRPM	*529.340,60	*529.340,60	Risk Assessment
May - June 2016	OPHRD CCI 2007 ME 05I PO 001	Ministry of Labour and Social Welfare – HOS, BROP, BRPM	*529.340,60	*529.340,60	Risk Assessment
May - July 2016	OPHRD CCI 2007 ME 05I PO 001	Directorate for Finance and Contracting of the EU Assistance Fund (CFCU)- IB	*529.340,60	*529.340,60	Risk Assessment
September-October 2016	OPHRD CCI 2007 ME 05I PO 001	National Fund (NF)	*529.340,60	*529.340,60	Risk Assessment

*529.340,60 €- amounts related to expenditure declared for the OPHRD

² Within IPA Component IV there is one programme Operational Human Resources 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 IV.

ANNEX E TO POINT 6: SUMMARY LIST FOR DECLARED EXPENDITURE AND SAMPLE AUDITS CARRIED OUT FROM 01st October 2015 UNTIL 30th 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 expenditure audited (4)	Amount of irregular expenditure in other expenditue 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.					
	CCI 2007 ME 05I PO 001	HRD	529.340,60	529.340,60	100%	0,00	0	0,00	0,00	529.340,60	100%	2%	/
	/	/	/	/	/	/	/	/	/	/	/	/	/
	/	/	/	/	/	/	/	/	/	/	/	/	/

ANNEX F: LIST OF AUDIT REPORTS FORWARDED TO THE COMMISSION - DG EMPL

System audit reports		Date of submission of the Report to EC-DG EMPL
1.	System Audit Report on the audit of Functioning of Management and Control System in Ministry of Education (BRPM)	18 th April 2016
2.	System Audit Report on the audit of Functioning of Management and Control System in Ministry of Science (BRPM)	25 th May 2016
3.	System Audit Report on the audit of Functioning of Management and Control System in Ministry of Labour and social Welfare (BROP/BRPM)	26 th July 2016
4.	System Audit Report on the audit of Functioning of Management and Control System in Directorate for Finance and Contracting of the EU Assistance Fund (CFCU)	6 th September 2016
5.	System Audit Report on the audit of Functioning of Management and Control System in National Fund	8 th November 2016