



MONTENEGRO

AUDIT AUTHORITY

No: 3011-4-06-308

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 2014
UNTIL 30 SEPTEMBER 2015

Podgorica, December 2015

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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
CDT	Commitments and Disbursements Status Table
DG REGIO	Directorate General for Regional and Urban Policy
DPW	Directorate for Public Works
EU	European Union
EC	European Commission
FIDIC	International Federation of Consulting Engineers
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
MoP	Manual of Procedures
MSDT	Ministry of Sustainable Development and Tourism
MTMA	Ministry of Transport and Maritime Affairs
NAO	National Authorizing Officer
NF	National Fund
NIPAC	National IPA Coordinator
OG	Official Gazette
OP	Operational Programme
OS	Operating Structure
PIN	Prior Information Notice
RDOP	Regional Development Operational Programme
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 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:
 - 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.

The AA of Montenegro, as an independent audit body, was established by Law on Audit of EU Funds (“Official Gazette of Montenegro”, no 14/12 from 7 March 2012).

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 2014 until 30 September 2015.

1.3. Steps taken for the preparation of the report

Annual Audit Activity Report (AAAR) is prepared in accordance with the Annual Audit Work Plan (AAWP) for the period from 30 September 2014 to 01 October 2015, submitted to the EC- DG Regio on 29 September 2014.

The AAAR is prepared as a result of audit activities carried out during the period from 01 October 2014 - 30 September 2015. During this period AA carried out system audits.

In the period November – December 2015 as separate activity before issuing the AAAR and the Annual Audit Opinion (AAO), AA performed follow-up of the findings and recommendations given in the course of performed system audits.

In this AAAR the overall overview of audit activities and follow-up activities carried out in above mentioned periods, are 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 01 October 2014 – 30 September 2015 AA carried out system audits.

In the period covered by this report, the AA has not been in a position to perform audit of operations, because in the reference period from 1 January until 31 December 2014¹ as well as in the period covered by this report, there were no signed contracts, no payment made and no declared expenditures to EC.

In the period November – December 2015 the AA performed 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 separate activity before issuing the AAAR and the AAO.

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.

Since the Financing Agreement was signed on 05 December 2014 and European Commission carried out advance payment on 18 December 2014 in the amount of 6.670.703,70 € and having in mind that during our audits there were no signed contracts, no payment made, no actual transactions have taken place yet, 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 OPRD under the period of performing our audits. Due to this fact we were focused on the processes/functions/areas listed below and examined their compliance with applicable accreditation criteria in the current stage of implementation of OPRD.

For the purpose of detailed defining of the scope of each audit, in the planning phase we performed a detailed risk assessment to determine the priority processes in conducting system audits. During 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 OPRD, 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, Risk management, Statement of Assurance and Financial Management in **Directorate for Public Works (DPW) - Implementing body (IB)**;
- Internal organization and Human Recourses, Management Verification, Communication and Reporting, Risk Management, Internal audit, Publicity and visibility, Programme Monitoring and Statement of Assurance in **Ministry of**

¹ Accordingly 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 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.

Sustainable Development and Tourism (MSDT) – Body responsible for OP and Body responsible for Priority/measure (BROP/BRPM);

- Internal organization and Human Recourses, Risk Management, Internal audit, Statement of Assurance, Contract Procedures and Communication and Reporting in **Ministry of Transport and Maritime Affairs (MTMA) - Body responsible for Priority/measure (BRPM)** and
- Internal organization and Human Recourses, Statement of Assurance, Risk Management, Verification by NAO, Financial Management, Bank Account System and Accounting 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 C to this AAAR.

1.4.2. Follow- up in all bodies before issuing the AAAR and AAO

In the period November – December 2015 the AA performed 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. 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.

1.5. Period covered by this report

This report covers the 12-month period which ended on 30 September 2015. Audit activities, on the basis of which this AAAR is prepared, were conducted during calendar years 2014 and 2015.

2. SUMMARY OF FINDINGS

As it was already mentioned in Section 1.4 Audit scope, during 2014 and 2015 the AA was carrying out system audits and Follow-up of the findings and recommendations given in the course of these 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 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. Major findings were not identified. For easier review we have prepared the table overview.

Table 1: Number of findings identified in this reference period

Audited body	System audits		
	Major	Intermediate	Minor
DPW-IB	-	7	3
MSDT-BROP/BRPM	-	6	1
MTMA-BRPM	-	13	3
NF	-	6	1

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

By the mid-September 2015 system audits of DPW (IB), MSDT (BROP/BRPM), MTMA (BRPM) and NF were carried out. During November and December 2015, as a separate activity, we performed Follow-up of the findings and recommendations given in the course these audits. Number of system findings per audited area/process in each body is given in table below.

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

Audited Process	DPW (IB)	MSDT (BROP/BRPM)	MTMA (BRPM)	National Fund
Internal organization and HR	5	3	8	1
Risk Management	1	0	1	1
SoA	1	1	1	2
Internal Audit	-	1	2	-
Financial management	2	-	-	2
Management verification	-	1	-	-
Communication and Reporting	-	0	1	-
Programme monitoring	-	0	-	-
Publicity and visibility	-	0	-	-
Contract procedures	-	-	2	-
Verification by NAO	-	-	-	0
Bank Account System	-	-	-	0
Accounting	-	-	-	0
Written procedures	1	1	1	1

Major findings were not identified.

The main findings were identified within internal organization and human resource management. The total number of findings in this audit area is 17 and 13 out of them are intermediate findings. Given that the human resource 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 (lack of staff, insufficient trainings, inadequate substitution policy, non-updated Job descriptions, insufficient engagement of certain employees in some tasks given in job descriptions, handover procedures, segregation of duties, monitoring of

implementation of annual work plan, inadequate premises and equipment, incompatibility of decisions on employment with the Rulebook on internal organization and systematization) improvements related to this audit area are needed.

By reviewing the Risk Management documentation and other business documentation, and based on performed interview with responsible employees in all bodies, we identified that employees are familiar with the requirements regarding the risk management described in the MoP. However, some improvements concerning MoP are needed - harmonization of template of Risk register with description that follows this template. Also, in MTMA/BRPM some improvements were needed in the risk identification, preparing the action plan and more serious approach related to risk management activities on the project level. Besides that, in NF we identified some weaknesses related to held Risk Management Panels.

Conducted trainings and pilot exercise for issuance of Statement of Assurance have achieved certain results, in terms of raising awareness on this issue within bodies of Operating Structure. However, during the audits we determined some weaknesses in the process of preparation of SoA in all bodies. Namely, it is evident that the process of preparation of issuance of SoA caused dilemmas both at the level of specific bodies, and at the level of OS. Therefore, we suggested initiating and taking appropriate activities which will lead to clear implementation of methodology for issuing SoA in the future period and it is necessary to continue raising awareness on this issue, so as to fully avoid weaknesses in the future. Also, we determined that copy of SoA was not sent to CAO by NAO. That may jeopardise undertaking of activities from CAO's competence which are prescribed by Commission Regulation (EC) No 718/2007, Framework Agreement and Financial Agreement which are signed between the Government of the Montenegro and the Commission of the European Communities.

Regarding Financial Management process examined in DPW and in NF we identified the following:

- In DPW (IB) the planning of EU and national contributions is not performed in accordance with the specific operational procedures described in the Manual of Procedures (MoP). The necessary documents for every single phase of planning are not prepared. Also, we determined that the Commitments and Disbursements Status Table is not prepared taking into consideration values of the Procurement Plan.
- During the audit in NF we determined weaknesses in performing tasks related to verification of existence and correctness of the co-financing elements (EU and national). EU donations should be planned under that name and registered by class, category, group and synthetics on the special account which was not done by the Law on Budget for 2015. According to this, the principle of transparency is breached. According to the Law on Budget 2015, funds are planned on the positions of IBs (Directorate for public works for Component III and CFCU for Component IV) only for expenditures which are financed from general income (co-financing) related to projects. Expenditures which are financed from EU donations are not planned in the Budget for 2015.

Due to Internal Audit importance and its role in the assessment of internal control system, the necessary number of employees with the adequate knowledge and experience should be ensured in the MTMA/BRPM and in the MSDT -BROP/BRPM (MSDT is responsible for internal audit of DPW/IB, since DPW is body within MSDT).

As a result of audit engagements, we gained reasonable assurance that MSDT-BROP/BRPM

and MTMA-BRPM staff understand Communication and Reporting requirements described in the Implementing and Operational Agreement and MoP. Since requirements and controls are implemented in practice, we have determined that the system in relation to this process is established and it functions on good grounds. Apart from the active participation of the Head of BRPM (MTMA) at coordination meetings of OS, minor improvements are needed regarding organisation and holding meetings at the level of BRPM (MTMA).

When the Contract procedures, audited in MTMA (BRPM) is concerned, we determined that Draft Prior Information Notice for Works Contract Design and construction of the New ETS “Trebešica” is prepared by DPW (IB) and submitted to BRPM for comments, although MoP prescribes that BRPM is responsible for preparation of Draft PIN. Also, adequate and sufficient audit trail is not ensured for implementation activities by BRPM related to the submission to Head of IB of the draft of tender documentation (Terms of Reference, Short List and budget estimate) for service contact.

As already mentioned we audited written procedures related to the above mentioned audit areas. Processes of amending, preparing, approving and distribution of the Manual of Procedures are adequately performed. Written procedures related to audit areas are in compliance with the requirements set out in the IPA Implementing Regulation and accreditation criteria. However, some improvements are needed. 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. In order to enhance clearness, recommendations for improvement of written procedures were given in the separate Annex of each Report.

2.2. Conclusion on findings

As a conclusion, at this phase of the implementation of operational program, the findings identified during the course of our audits were system findings.

The main systemic findings identified in all bodies during our audit activities in relation to key elements of the management and control system (MCS), were the findings related to human resources management, risk management and preparation of SoA. Concerning the financial management process, issues of the planning of co-financing (national and EU) have been identified in the IB and in NF. Necessary number of employees with the adequate knowledge and experience in the Internal Audit Departments in MTMA/BRPM and in the MSDT is not ensured. Regarding to Contract procedures, audited in the MTMA as BRPM, some part of responsibilities prescribed in MoP, are not performed. Also, written procedures related to audited areas are not clearly described and completely harmonised with national legislative.

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, categorized 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 26 April until 30 September 2014 and in the period from 1 October until mid December 2014.

3.1. Changes in the MCS since last AAAR

- **Organizational changes of the Ministry of Sustainable Development and Tourism**

The Government of Montenegro on its session held on April 9th 2015 adopted a Rulebook on internal organization and systematization of the Ministry of Sustainable Development and Tourism.






By the new Rulebook, Department for Management of EU Funds, which functions as the BRP/BRPM, becomes Division for EU and other funds management under Directorate for EU integration and international cooperation. Those changes are given in the table below:

Table 3: Comparison between previous and current organizational structure in MSDT

Previous organizational structure	Current organizational structure
MINISTER of MSDT ↓	MINISTER of MSDT ↓
Department for Management of EU Funds	Directorate for EU integration and international cooperation ↓
	Division for EU and other funds management

Since, DPW is organised as a body within the Ministry of Sustainable Development and Tourism (MSDT), by the above mentioned Rulebook there were changes in internal organization of DPW as it is presented in the table below:

Table 4: Comparison between previous and current organizational structure in DPW

Previous		Current	
Directorate for Public Works		Directorate for Public Works	
Sector for Development, Contracting and Financing of Investment Projects 	Division for preparatory work	Sector for preparation of investment projects 	Division for preparatory works
	Quality Assurance Division	Sector for Development, Contracting and Financing of Investment Projects 	Quality Assurance Division
	Contract Division		Contract Division
	Finance and Accounting Division		Finance and Accounting Division
Sector for Monitoring and Quality Control of Investment Projects 	Division for High Infrastructure	Sector for Monitoring and Quality Control of Investment Projects 	Division for international Cooperation and IPA Funds
	Division for Primary and Utility Infrastructure		Division for High Infrastructure
			Division for Primary and Utility Infrastructure

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

3.2. Changes in the MCS from 01 October until mid December 2015

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

At the session held on 13 November 2015, the Government of Montenegro adopted the Decision on appointment of persons responsible for carrying out the decentralised management of pre-accession EU funds by which Mrs Ana Vukadinović, Acting Director General of the Directorate General for Coordination of EU Assistance Programmes in the Ministry of Foreign Affairs and European Integration was appointed as the Strategic Coordinator for IPA Components III and IV. She replaced Mrs Ivana Pertičević. This Decision was published on 16 December 2015 (OG No 70/2015).

The NAO informed the EC (with a copy of notification to the AA) on 12 October 2015 (letter No 06-4223/1) on the planned replacement of the Strategic Coordinator for IPA Components III and IV.

- **Change of National Authorizing Officer**

At the session held on 17 December 2015, Government of Montenegro adopted the decision on resignation of Mr Miodrag Radonjić as Directorate General for the State Treasury as well as NAO. Mr Dragan Darmanović is appointed on a function of Directorate General for the State Treasury and National Authorising Officer instead of Mr Miodrag Radonjić.

Mr Radoje Žugić in his capacity of the CAO and the Minister of Finance informed EC on these functional changes on 16 December 2015 (later No: 06-5398/1).

- **Procedural changes**

Manuals of Procedures (MoPs) of all OS bodies and NF are updated. Version of MoPs have been upgraded from 4.0 to 5.0 and entered into force on 1 December 2015.

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

In the AAWP for the period 01 October 2014 – 30 September 2015 which was submitted on 29 September 2014 to DG REGIO, there were no changes. This AAWP is given in Annex A to this report.

5. SYSTEMS AUDITS

This AAAR is prepared by the AA and all activities in the course of 2014-2015 were performed by the AA.

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

5.1. Basis for selection of the audits

We performed our activities in accordance with the AAWP for period 01 October 2014 – 30 September 2015.

In the course of preparing the AAWP, i.e. in September 2014, 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 IPA Component III. 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 III.

Risk factors which were identified and taken into account during risk assessment at the level of the bodies were as follows: Number and priority (medium, low) recommendations from Final Report DG-REGIO, Previous experience with EU funded Programmes, Staff planning (WLA, vacant)/Mobility of staff (newly appointed, turnover) and Status of implementation OP.

Taking into consideration the above mentioned, especially level of implementation of OP and available AA's resources, we decided that audit period from 01 October 2014 until 30 September 2015 include all four bodies which participate in management and implementation of OPRD-IPA Component III.

In accordance with the conducted risk assessment, system audits started in the riskier bodies for this phase of implementation (IB-DPW, HOS/BROP/BRPM-MSDT), and after that we continued system audit in BRPM-MTMA and NF.

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 2015 AA carried out the follow-up of the findings and recommendations given in the course of previous audits. Consequently, before stating the principal findings, recommendations, corrective measures applied and conclusion we will briefly describe the follow-up approach of the AA.

According to the AA's IPA Audit Manual "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".

In the period November – December 2015 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 mid of November 2015 we sent to all bodies, in which we performed system audits, Table with the summary of findings and recommendations from previous audit. 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 2015. 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.
- At the end of November and at the beginning of December 2015 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 2015 we prepared a separate Audit

Recommendations' Status Report for each body. We informed all auditees about the results of our follow-up activities.

Results of Follow-up activities are described in the section 5.3 of this report.

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

Further below in Table 5 we give list of principal findings identified during system audits and status of these findings in December 2015. Detailed description on principal findings, recommendations and information on the measures undertaken for the purpose of eliminating the findings are given in Table 6. Conclusions reached through audits and conclusion on the functioning of MCS within OPRD for period ended on 30 September 2015 are given afterwards.

Table 5: List of principal findings identified during system audits and status of these findings in December 2015

No	Finding	Level of priority ²	Status in December 2015 ³
DIRECTORATE FOR PUBLIC WORKS (DPW) - IB			
1	Work Load Analysis	Intermediate	Closed
2	Lack of staff, Recruitment Plan and Recruitment	Intermediate	Partially closed
3	Training	Intermediate	Closed
4	Internal acts and policies, responsible persons, Job Descriptions, Substitution policy and Segregation of duties	Intermediate	Partially closed
5	Preparation of Statement of Assurance	Intermediate	Open-In progress
6	Budget Planning	Intermediate	Closed
7	Commitments and Disbursement Status	Intermediate	Open
MINISTRY OF SUSTAINABLE DEVELOPMENT AND TOURISM (MSDT) -BROP/BRPM			
1	Written Procedures – Manual of Procedures	Intermediate	Closed
2	Training	Intermediate	Closed
3	Handover procedures	Intermediate	Open-In progress
4	Inadequate audit trail relating to performed on-the-spot checks and management verification in tendering	Intermediate	Open
5	Capacity in Internal audit unit and qualifications of internal auditors	Intermediate	Partially closed
6	Preparation of Statement of Assurance	Intermediate	Open-In progress
MINISTRY OF TRANSPORT AND MARITIME AFFAIRS (MTMA) - BRPM			
1	Lack of staff	Intermediate	Closed
2	Personnel Performance Evaluation	Intermediate	Closed
3	Retention of employees	Intermediate	Open-In progress
4	Annual Work Plan and semi-annual monitoring of implementation of the Annual Work Plan	Intermediate	Closed
5	Handover procedures	Intermediate	Open
6	Inadequate premises and equipment	Intermediate	Open
7	Segregation of duties	Intermediate	Open-In progress
8	Risk management / Delay in implementation - project from OPRD 2012-2013	Intermediate	Open-In progress
9	Capacity in Internal audit unit	Intermediate	Open-In progress
10	Annual Planning	Intermediate	Partially closed
11	Preparation of Statement of Assurance	Intermediate	Open-In progress
12	Preparation of Draft Prior Information Notice	Intermediate	Open-In progress
13	Audit trail – Tender documentation (specific to each type of contact)	Intermediate	Open-In progress
NATIONAL FUND (NF)			
1	Written procedures - Manual of Procedures	Intermediate	Closed
2	Preparation of Statement of Assurance	Intermediate	Open-In progress
3	Communication between NAO and CAO	Intermediate	Closed
4	Risk Management Panel	Intermediate	Open
5	Verification of the existence and correctness of the co-financing elements	Intermediate	Open-In progress
6	Correctness of the planning of co-financing (EU and national)	Intermediate	Open-In progress

² Initial level of priority from individual system audit reports

³ Status of principal findings-including findings for which deadline for implementation of recommendation is not expired

Table 6: Details on principal system findings and results of follow-up activities

	Finding	Recommendation	Status in December 2015 (results of Follow-up)
DIRECTORATE FOR PUBLIC WORKS - IB			
1.	<p>Work Load Analysis</p> <p>On the basis of reviewed WLAs for 2014 and 2015 we determined that these WLAs are not in accordance with the template provided in the MoP: not listing the number of working days available per year, total number of work posts, number of current employees, number of employees in the current systematization and the difference which is the basis for new recruitment.</p> <p>Additionally, the information included in the WLAs do not present the actual situation, since 5 out of 15 employees listed in WLAs, according to their Decisions on allocation to the work post, do not cover IPA matters.</p> <p>Furthermore, WLAs do not take into account the percentage of work of the employees which are not fully allocated (100%) to IPA activities. According to the Rulebook on internal organization and systematization Ministry of Sustainable Development and Tourism (hereafter: Rulebook) employees in DPW have also other activities apart from IPA.</p> <p>Also, the WLA for 2015 approved on 08.12.2014 was not prepared on the basis of Annual Work Plan, as the AWP was approved on 30.01.2015.</p> <p>Consequently, the prepared WLAs, for the reasons described above, cannot be a reliable basis for the recruitment plan.</p>	<p><i>Level of priority: Intermediate</i> <i>Implementation deadline: June 2015</i> <i>Date of the Final Report: 29th April 2015</i></p> <p>WLA should be prepared in order to determine more precisely the number of employees necessary for timely and efficient performance of all activities related to OPRD implementation and in order to be reliable basis for the recruitment plan.</p> <p>We recommend further enhancement of the quality of WLA in terms of:</p> <ul style="list-style-type: none"> - Following the template of the WLA from the MoP - calculating the number of working days available per year, total number of work posts, number of current employees, number of employees in the current systematization and the difference which is the basis for new recruitment. - Taking into account actual Annual Work Plan, organisational structure, job descriptions, Rulebook, Decision on allocation to work post and proper working time of participation in IPA tasks. 	<p>Status: Implemented Level of priority: N/A Implementation deadline: N/A</p> <p>The updated WLA in June 2015 is in accordance with the template provided in the MoP.</p> <p>E-DPW- 1- WLA</p>
2.	<p>Lack of staff, Recruitment Plan and Recruitment</p> <p>The Recruitment Plan for 2014 was approved on 04 July 2014. This plan shows the need to recruit 6 employees based on the result of the WLA. However, the reviewed documents (AWP for 2014 and WLA for 2014) are not of a satisfactory quality, so the Recruitment Plan does not show the real situation. Also, the envisaged number of work posts in the Rulebook on internal organization and systematization Ministry of Sustainable Development and Tourism No 01-1349/10 adopted by Government of the Montenegro on 05.07.2013 is 38. The envisaged number of work posts related to IPA activities is 24. Until end of December 2014, 11 out of 24 envisaged work posts are occupied according to Decision on allocation to the work posts.</p> <p>The Recruitment Plan for 2015 is not prepared.</p> <p>During January 2015 in DPW 5 employees were employed on 3-month term contracts. They have not been employed in accordance with the Law on civil</p>	<p><i>Level of priority: Intermediate</i> <i>Implementation deadline: September 2015</i> <i>Date of the Final Report: 29th April 2015</i></p> <ul style="list-style-type: none"> - We recommend preparation of accurate Recruitment plan on the bases of adequate Annual Work Plan and Work Load Analysis. - Action should be taken at the appropriate level Director of DPW/HOS/ NAO in order to ensure fulfilment of the vacant positions in accordance with the Rulebook and the WLA (of a satisfactory quality), on permanent or long-term basis of IPA staff in the DPW. - The procedure of recruitment should be conducted in accordance with national legislative. 	<p>Status: Partially implemented Level of priority: Intermediate New implementation deadline: January 2016</p> <p>Recruitment plan is prepared on the basis of WLA. Public announcement for 7 vacant positions for Long Term Employment Contract were published by Human Recourses Managing Authority. This process is still ongoing.</p> <p>The implementation of this recommendation will be followed during our next audit engagement in the DPW.</p> <p>We have therefore set a new deadline for this finding; however the priority remained</p>

	Servants and Employees. These persons do not have the status of state employees; therefore they have no responsibility according to Law on Civil servants and Employees. Also, these TLCs are not related to IPA-OPRD matters. One of the recommendations of the auditor from DG Regio in Revised Final Report (January 2014) was: Fill in the vacant positions in accordance with the systemization acts and the work-load analysis (by means of permanent or long-term contracts).		the same. E-DPW-2- Recruitment plan E-DWP-3: Public announcement for 7 vacant positions for Long Term Employment Contract. www.uzk.co.me
3.	Training We determined that the trainings for 2014 and for 2015 are not identified through the Training Needs Analysis for the following reasons: - The Training Needs Questionnaire (Annex 12) was not filled in by all employees, - The Training Needs Self-Assessment (Annex 13) was not filled in by all employees, -The Training Map (Annex 14) for 2014, approved on 27.06.2014, is not relevant and proper designed, since it presents just a signed template given in MoP (Part I chapter HR Annex 14), -Training Map for 2015 is not prepared. Based on our review of the filled in Training Needs Questionnaire (Annex 12) and the Training Needs Self-Assessment we have identified the need for additional trainings in specific IPA fields and for English Language. On the basis of reviewed Training registers we have determined that not one of the employees had training for at least 10 days per year. Also, there are no Training reports (Annex 16) for attended trainings.	<i>Level of priority: Intermediate</i> <i>Implementation deadline: June 2015</i> <i>Date of the Final Report: 29th April 2015</i> Our recommendation is to provide adequate trainings related to the IPA for IB employees, due to their needs. Training Map for the next year should be made taking into consideration planned and held trainings of last year. The Head of IPA body should reassess and review the training needs for the employees that shall be reflected in the Training Map. Training map made in this way should be included into a general training plan of the IPA body and its copy transmitted to the Human Resources Management Authority for information. Also, we recommend that after each training event or conference, the attendee should fill in the Training Report (Annex 16) and submit it to the Head of Division/Directorate not later than 5 working days after the event.	Status: Implemented Level of priority: N/A Implementation deadline: N/A Through the project of Technical Assistance IPA 2011, several trainings on the topic adequate for Operating Structure staff were conducted. Based on TNQ and TNSA Training map are prepared. Also, Training reports are fulfilled. E-DPW-4- Training Needs Questionnaires E-DPW-5-Training Needs Self-Assessments E-DPW-6- Training Maps E-DPW-7 – Training Reports E-DPW-8- Training Register
4.	Internal acts and policies, responsible persons, Job descriptions, Substitution policy and Segregation of duties The envisaged number of work posts in the Rulebook (No 01-1349/10 adopted by Government of the Montenegro on 05.07.2013) is 38. The envisaged number related to IPA activities is 24 and 11 out of them are occupied, according to Decisions on allocation to the work posts. In Rulebook, job description for position Advisor to the Director for control of financing of IPA project includes only activities of internal auditor. However s/he does not perform any internal audit activities. Also, Annex 3 - <i>Distribution of the IB functions and tasks within internal organization of the Directorate for Public Works acting as IB</i> of MoP (Part II chapter Internal Organization and HR) shows Internal Audit Unit as part of internal organization of DPW. According to the national regulation (Public Internal Financial Control Act - PIFC, OG MNE No 30/12) internal audit is performed by the Internal Audit Unit in MSDT. Furthermore, five employees have signed Job Descriptions for IPA even though in the Rulebook those work posts are not related to IPA matters, as follows: - According to the Decision on allocation to the work posts, two employees are	<i>Level of priority: Intermediate</i> <i>Implementation deadline: June 2015</i> <i>Date of the Final Report: 29th April 2015</i> Harmonization of Rulebook on internal organization and systematization with real needs of organization as well as JDs with the Decision on allocation to the work post; - To organize the work in such a way that each employee does his job related to IPA funds; -To fulfil Substitution plan in accordance to his purpose: the substitution policy should ensure that if one person is temporally absence from the work, his/her management responsibilities should be delegated to another person i.e. the purpose of the	Status: Partially implemented Level of priority: Intermediate New implementation deadline: January 2016 The Government of Montenegro on its session held on April 9th 2015 adopted the Rulebook on internal organization and systematization of the Ministry of Sustainable Development and Tourism (DPW is body within MSDT). Decisions on assignment to the job position are in accordance with the Rulebook. Job Descriptions were updated. Substitution Plan is updated. Necessary number of staff is not recruited. Public announcements for 7 vacant

	<p>employed in the Division for preparatory works. However, according to internal organisation of DPW, that Division does not perform any activity related to IPA. On the other hand, according to their signed Job Descriptions they are contract managers in Contract Division.</p> <ul style="list-style-type: none"> - According to the job descriptions of three employees (Deputy of Head DPW, Head of Finance and accounting Division, Supervisor in the Division for High Infrastructure) they are responsible for IPA matters, but in the Rulebook, their work posts do not include activities relating to IPA. <p>The professional requirements needed for certain work posts are determined in the Rulebook. According to the Rulebook, certain job positions related to IPA do not list English language as a requirement.</p> <p>Signed Job Descriptions are not updated according to the Decisions on allocation to the work post and harmonised with Rulebook (No 01-1349/10 adopted by Government of the Montenegro on 05.07.2013).</p> <p>We identified insufficient engagement of certain employees in some tasks given in their job descriptions, since some documents are prepared by the same person even though it is not his responsibility according to his signed Job Description. (For example: WLAs, Annex 3–Task and recommendations from the audit report (Part I Chapter Internal control of the MoP Version 3.0), Self-assessment questionnaire ...).</p> <p>The DPW Plan for Substitution of staff was approved by Director DPW on 18 July 2014. Substitution is determined for the work posts on which nobody is appointed (as accountants, financial controller, contract managers). Also, Substitution is not defined for the Head of the Division for High Infrastructure and for the Head of the Division for Primary and Utility Infrastructure.</p> <p>Segregation of duties is described in Part II chapter 1, Annex III. However, since there are not enough employees to cover necessary tasks, currently segregation of duties is not ensured in practice.</p> <p>Taking into account above mentioned, i.e.:</p> <ul style="list-style-type: none"> - Job Descriptions are not updated according to the Decisions on allocation to the work post and harmonised with Rulebook on internal organisation and systematization. - there is insufficient engagement of certain employees in some tasks given in job descriptions, - Substitution plan is not completed and <p>there are not enough employees to cover necessary tasks - segregation of duties is not ensured in practice</p> <ul style="list-style-type: none"> - There is a risk that the DPW-IB will not ensure proper functioning of the organization in fulfillment of the tasks related to utilization of IPA funds. 	<p>substitution policy is the replacement of the person being appointed on the certain position and temporally performance of delegated tasks, and not the performance of the tasks of the person that is not appointed. Consequently, if the certain work post is not occupied, the person that is not appointed on the respective position cannot be replaced by another person.</p> <p>-To recruit necessary number of staff in order to ensure adequate segregation of duties.</p>	<p>positions for Long Term Employment Contract were published by Human Recourses Managing Authority. This process is still ongoing.</p> <p>The implementation of this recommendation will be followed during our next audit engagement in the DPW</p> <p>We have therefore set a new deadline for this finding; however the priority remained the same.</p> <p>E-DPW-9 New Rulebook E-DPW-10 JDs E-DPW-11 Substitution Plan</p>
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5.	<p>Preparation of Statement of Assurance</p> <p>The self-assessment questionnaire was fulfilled by the financial controller even though it is not his responsibility according to his JD. Part of documents relevant for the preparation of the Statement of Assurance is also prepared by the above mentioned person (For example Annex 3 – Task and recommendations from the audit report etc). Reviewing this documentation, we identified that some Annexes from MoP Chapter Internal control are not fulfilled in proper manner.</p> <p>Example:</p> <ul style="list-style-type: none"> Annex 3 – Task and recommendations-includes task and recommendation from NF according to the conducted on-the-spot check control, even though this is not an audit activity; Annex 4 - Register of Audits includes controls performed by NF and HOS Office, although they are not considered as audit. <p>Statement of Assurance is not supported by a Report in which the Head of IB should provide information on the activities/results/facts which have been implemented /achieved.</p>	<p><i>Level of priority: Intermediate</i> <i>Implementation deadline: December 2015</i> <i>Date of the Final Report:29th April 2015</i></p> <p>Since SoA is an essential process to provide annual assurance to the NAO and to the EC services, it is necessary to raise awareness within DPW about it. Also, employees in Quality Assurance Division should be involved in performing tasks relating to Statement of Assurance and preparing all necessary documents for issuing of SoA for the IB to the HOS.</p> <p>Statement of assurance should be supported by a Report in which the Head of IB should provide information on the activities/results/facts which have been implemented /achieved.</p>	<p>Status: In progress/ Level of Priority: Intermediate New implementation deadline: January 2016</p> <p>The new MoP Version 5.0 entered into force on 01st December 2015. In the MoP version 5.0 (Chapter Statement of Assurance) the clarification has been made in respect to the documents that have to be submitted by the IB.</p> <p>The implementation of this recommendation will be followed during our next audit engagement in the DPW. We have therefore set a new deadline for this finding; however the priority remained the same.</p>
6.	<p>Budget Planning</p> <p>National co-financing for projects of OP RD is included in Capital Budget of DPW for 2015, but funds for Priority axis 3, measure 3.1 Technical assistance are not provided in the Current Budget of DPW for 2015. However, funds have already been planned within Budget of Ministry of Finance, on the position reserve of the budget. There is a Conclusion of Government of Montenegro on 4 December 2014, in which the Ministry of Sustainable Development and Tourism and the Ministry of Transport and Maritime Affairs are obliged to plan necessary assets for co-financing of the project and technical assistance for 2015, 2016 and 2017 with the capital and dedicated budget.</p> <p>On the other hand, on the basis of the interviews conducted with the employees, we identified that the planning of EU and national contributions is not performed in accordance with the specific operational procedures described in MoP and that the necessary documents for every single phase of planning are not prepared.</p>	<p><i>Level of priority: Intermediate</i> <i>Implementation deadline: By adoption of Law on state budget for the next year</i> <i>Date of the Final Report:29th April 2015</i></p> <p>We recommend that funds for Priority Axis 3, measure 3.1. Technical assistance for the next year should be planned under budgetary heading of DPW, in accordance with provisions of the Operational Agreement.</p> <p>Also, when planning the budget, we recommend following the process of preparation of the budget, in order to assure that every phase of planning of EU and national contributions is implemented adequately, ensuring necessary audit trail and adequate involvement of EU and national co-financing under budgetary heading of the DPW.</p>	<p>Status: Implemented Level of Priority: N/A Implementation deadline: N/A</p> <p>DPW prepared the final version of the request for allocation of budgetary funds (national and EU co-financing for projects of OPRD (Priority axis 1, 2 and 3) under budgetary heading of DPW and submitted it to HOS for verification. EU and national co-financing for projects of OP RD are included in Draft of Capital Budget of DPW for 2016.</p> <p>E-DPW-12 Plan of Capital Budget for 2016/ Draft of Capital Budget for 2016</p> <p>E-DPW-13 Letter of submitted request for allocation of budgetary funds (national and EU co-financing for projects of OPRD)</p>

7.	Commitments and Disbursements Status Table – CDT During our audit, we have received monthly reviewed and updated Procurement plan, which gives precisely defined deadlines for execution of a single phase of each operation for OPRD 2012-2013. Besides that, we received fulfilled Annex 4 - Commitments and Disbursement Status Table. The values of the measures presented in this Annex are not in accordance with the values in the Procurement plan, so we determined that the CDT is not prepared taking into consideration the Procurement Plan. We also got mails as evidence that CDT is submitted to the NF, HOS and BRPM.	<i>Level of priority: Intermediate</i> <i>Implementation deadline: June 2015</i> <i>Date of the Final Report: 29th April 2015</i> When updating the CDT on a quarterly basis, we recommend using the valid data presented in the Procurement plan, because such updated CDT is used as a basis on which the NAO, the HOS, the Head of BRPM and the Head of IB agree on the contracting, payment and certification amounts in order to avoid de-commitment of funds.	Status: Not Implemented Level of Priority: Intermediate New implementation deadline: End of 1st quarter of 2016 Updated CDTs on a quarterly basis are not in accordance with data presented in the appropriate Procurement plans. The implementation of this recommendation will be followed during our next audit engagement in the DPW. We have therefore set a new deadline for this finding; however the priority remained the same.
MINISTRY OF SUSTAINABLE DEVELOPMENT AND TOURISM (MSDT) - BROP/BRPM			
1.	Written procedures –Manual of procedures During carrying out the audit we determined that some chapters of the MoP related to audited areas, are not clearly described and are not harmonized with national legislation. Also, when updating the Manual, changes in organisational structure are not taken into account. Above mentioned may cause dilemma in work of employees. In order to enhance clearness, examples related to above mentioned and recommendations for improvement of written procedures are given in the Annex I of Final Report.	<i>Level of priority: Intermediate</i> <i>Implementation deadline: December 2015</i> <i>Date of the Final Report: 15th June 2015</i> - We recommend to harmonize MoP with Law on Civil Servants and Employees (OG MNE No 39/11; 50/11, 66/12 and 34/14). - We recommend that during the updating of the MOP all changes (e.g. organizational structure, legislative...) occurred from adopting of the previous version of the MOP should be taken into account. - We recommend harmonization of template of Risk register with explanation followed this template. <i>*Examples are given in Annex 1 of Final Report</i>	Status: Implemented Level of Priority: N/A Implementation deadline: N/A New version of MoP (version 5.0) has been adopted and entered into force in 1 st December 2015. MoP has been revised in accordance with AA recommendation. E-MSDT-1 MoP
2.	Training We determined that the trainings are not identified through the Training Needs Analysis for the following reasons: - Training Maps for 2014 and 2015 are prepared and approved. However, these Training Maps (Annex 14) are not relevant and properly designed, since they are not based on the fulfilled questionnaires: Training Needs Questionnaire (Annex 12) and Training Needs Self-Assessment (Annex 13). The Maps represent only a signed template given in MoP (Part I chapter HR Annex 14), which means that they do not show the need for specific trainings which employees need. - On the basis of reviewed Training registers we have determined that no employee had training for at least 10 days per year. - There are no Training plans for 2014 and 2015.	<i>Level of priority: Intermediate</i> <i>Implementation deadline: December 2015</i> <i>Date of the Final Report: 29th April 2015</i> Training Map for the next year should be made taking into consideration planned and held trainings of last year. The Head of IPA body should reassess and review the training needs for the employees that shall be reflected in the Training Map. Training map made in this way should be included into a general training plan of the IPA body and its copy transmitted to the Human Resources Management Authority for information.	Status: Implemented Level of Priority: N/A Implementation deadline: N/A The Annual Training Map for 2016 was prepared and approved on 1 December 2015. Training map has been prepared in accordance with the new version of MoP (version 5.0). E-MSDT-2- Annual Training Map

3.	<p>Handover procedures</p> <p>During the audit period in MSDT-BROP/BRPM the following replacements of staff occurred:</p> <ul style="list-style-type: none"> - Head of Operating structure for IPA component III was replaced, in accordance to Decision on appointment of persons responsible for carrying out the decentralized management of pre-accession funds of EU (OG 55/14), - Task Manager 1 was replaced by Task Manager II, in accordance to the approved Substitution Plan. Task Manager 1 will be temporally absent from work (maternity leave). In both cases, activities prescribed by MoP concerning handover of responsibility in cases when member of staff is temporarily or permanently replaced are not undertaken. 	<p><i>Level of priority: Intermediate</i> <i>Implementation deadline: Continuously</i> <i>Date of the Final Report: 29th April 2015</i></p> <p>In order to provide continuity in work, i.e. to fulfil the purpose of the substitution policy, our recommendation is to undertake all activities prescribed by MoP in all cases of replacement of staff and with the aim of handing responsibility on the right way.</p>	<p>Status: In progress</p> <p>Level of Priority: Intermediate Implementation deadline: Continuously</p> <p>Handover procedure has been conducted when one employee left his position.</p> <p>Further implementation of this recommendation will be followed, in cases of further staff replacement. E-MSDT-3 –Handover check list</p>
4.	<p>Inadequate audit trail relating to performed on-the-spot checks and management verification in tendering</p> <p>Auditee performed on the spot checks - system level verification in the Ministry of Transport and Maritime Affairs as BRPM in January 2015 and in Directorate for Public Works as IB in December 2014. On the spot checks are performed by Task Manager I, TM II and TM III, in accordance with approved Work plans for on-the-spot check. On the spot check reports are prepared.</p> <p>In both performed on-the-spot checks by BROP/HOS office, there are no official letters sent to the examined institutions informing about the upcoming on-the-spot check. Beside that, there are no official letters sent to the examined institutions requesting to present their comments on the on-the-spot check report. The staff member of the BROP/"HOS Office" sent just an e-mail to the examined institution.</p> <p>Also, auditee performed sample check of the final version of the tender documents before submitting to the EU Delegation (management verifications by HOS in tendering).</p> <p>According to the statements of employees in BROP, they performed the sample checking of tender documents in the context of HOS management verification function in tendering. There is an e-mail in which they informed Implementing body about performed checks, but adequate audit trail is not ensured.</p> <p>However, adequate and sufficient audit trail is not ensured for implementation of each step of performed on-the-spot checks and management verification by HOS in tendering.</p>	<p><i>Level of priority: Intermediate</i> <i>Implementation deadline: Continuously</i> <i>Date of the Final Report: 29th April 2015</i></p> <p>We recommend to ensure adequate audit trail for each implemented activity</p>	<p>Status: Not implemented Level of Priority: Intermediate Implementation deadline: Continuously</p> <p>Given that until the time of preparation of this report BROP has not performed on the spot checks – system level verifications, auditee has not been in position to implement our recommendation.</p> <p>The implementation of this recommendation will be followed during the following period.</p>

5.	<p>Capacity in Internal audit unit and qualifications of internal auditors</p> <p>In Article 14 of the Rulebook it is stated that IAD implements activities related to: operational planning and conducting of all internal audit functions within the jurisdiction of the Ministry and within the responsibilities of authorities that are part of the Ministry, as well as within the jurisdiction of other public sector entities pursuant to agreement concluded between the Minister and the head of that entity. Minister of the MSDT has signed agreements with 6 other state bodies to implement internal audit for them.</p> <p>According to Article 18 of the Law on Internal Financial Control in public sector IAD shouldn't have less than 3 internal auditors including head of the IAD. In the Rulebook four work posts have been envisaged in IAD, including the head, two senior auditors and one junior auditor.</p> <p>Currently, four employees deal with internal audit matters. The Head of the IAD and one senior auditor have Decisions on allocation on work posts in this Department.</p> <p>Junior auditor has a temporary contract in IAD which runs until 27.06.2015. According to national legal basis, these contracts are given for certain tasks that do not require special knowledge and expertise and are not appropriate for internal audit positions.</p> <p>One employee has Decision on allocation on work posts as Head of Department for Standards in the field of tourism in the Directorate for tourism development and standards. This employee doesn't have a formal responsibility for activities related to internal audit.</p> <p>Only the Head of the IAD has the Certificate for internal auditors.</p>	<p><i>Level of priority: Intermediate</i> <i>Implementation deadline: December 2015</i> <i>Date of the Final Report: 29th April 2015</i></p> <p>In order to ensure timely and effective execution of individual audits envisaged in the Annual Plans and other activities of the IAD, our recommendation is to fulfil vacancies respecting the requirements laid down in the Rulebook.</p>	<p>Status: Partially implemented Level of Priority: Intermediate New implementation deadline: I quarter 2016</p> <p>One new employee was hired on the position of Senior internal auditor on the basis of long term contract.</p> <p>Employee who covers the position of Junior auditor-temporary contract is in the procedure of getting the licence for Internal audit, which is planned to be obtained in the course of 2016.</p> <p>The implementation of this recommendation will be followed during our next audit engagement in the MSDT</p> <p>We have therefore set a new deadline for this finding; however the priority remained the same.</p> <p>E-MSDT-4 Decisions on assignment of job position – Senior internal auditor</p>
6.	<p>Preparation of Statement of Assurance</p> <p>Having in mind that heads of bodies of Operating Structure submitted statements of assurance to the HOS, and that HOS submitted statement of assurance to the NAO for 2014, we determined that the process of issuing statements of assurance went in line with <i>Guidelines for process of issuing of first official Statement of Assurance for 2014</i>, issued by NAO. The self-assessment questionnaires were fulfilled at the level of IPA body and at the level of Operating Structure. However, we determined the following:</p> <p>- In the above-mentioned guidelines apart from the self-assessment questionnaires (Annex 2a and Annex 2b), Annex 4 is given as well, in which there is a list of supporting documentation which should be submitted by bodies of OS to HOS, i.e. by HOS to NAO. However, there is a contradiction between the mentioned annexes. E.g. in the questionnaires the question "Is the register of weaknesses determined by the internal controls kept?" is marked as N/A, while the Annex 4 requires the submission of the Register of internal control weaknesses (MoP Part I, Chapter Internal control, Annex 6- Register of internal control weaknesses) - Replies in the questionnaire for assessment of OS efficient functioning (Annex 2b) are not given in compliance with the submitted replies from the Self-assessment questionnaire of IPA bodies (BROP/BRPM; BRPM and IB), which finally results</p>	<p><i>Level of priority: Intermediate</i> <i>Implementation deadline: December 2015</i> <i>Date of the Final Report: 29th April 2015</i></p> <p>Since SoA is an essential process to provide annual assurance to the NAO and to the EC services, it is necessary to raise awareness within bodies of Operating Structure about it.</p> <p>Having in mind all above-mentioned, it is evident that the process of preparation of issuance of SoA caused dilemmas both at the level of specific bodies, and at the level of OS. Therefore, we suggest to initiate appropriate activities which will lead to clear implementation of methodology for issuing SoA in the future period.</p>	<p>Status: In progress Level of priority: Intermediate New implementation deadline: January 2016</p> <p>The new MoP Version 5.0 entered into force on 01st December 2015. In the MoP version 5.0 (Chapter Statement of Assurance) the clarification has been made in respect to the documents that have to be submitted by bodies of OS and at the level of HOS.</p> <p>The implementation of this recommendation will be followed during our next audit engagement in the MSDT</p> <p>We have therefore set a new deadline for this finding; however the priority remained the same.</p>

	<p>in the incorrect result of self-assessment in the Questionnaire for assessment of OS efficient functioning (Annex 2b).</p> <ul style="list-style-type: none"> - Statements of Assurance issued by Head of IB/Head of BRPM are not supported by the Report in which the Head of IB/BRPM should provide information on the activities/results/facts which have been implemented /achieved. - Along with SoA, HOS submitted to NAO documentation which was given by Annex 4 of Guidelines. However, he did not fulfil and submit Annex 6-<i>Statement of Assurance checklist for HOS</i>, as it was foreseen by MoP (Part I, Chapter Statement of Assurance). 		
MINISTRY OF TRANSPORT AND MARITIME AFFAIRS MTMA-BRPM			
1.	<p>Lack of staff</p> <p>WLA results for 2015 show that 4 employees are needed for performance of activities from the BRPM competence.</p> <p>The envisaged number of work posts in the Rulebook on internal organisation and systematization in the Department for European Integration and International Cooperation is 3 (three). Related to IPA jobs they have the following positions: Head of department/BRPM, one Programming Manager and one Implementing Manager.</p> <p>According to Decision on Allocation to the Work Post, 2 work posts out of 3 are occupied. Position of Implementation Manager has been vacant since September 2014, since employee left the Department for EU integration and international cooperation. This person was also a person in charge of Risk management (Risk Manager) and of publicity measures by the BRPM (Publicity Officer).</p> <p>Based on the results from WLA, the Recruitment Plan for 2015 has been adopted, according to which employment of 2 persons is planned as follows:</p> <ul style="list-style-type: none"> - One Implementing Manager (work post envisaged in Rulebook) and - One Programming Manager (work post is not envisaged in Rulebook). <p>An evident lack of employees, especially Implementing Manager (who is at the same time Risk Manager and Publicity Officer) whose position is very important in this and the next phases of OP implementation as well, may have a great impact on the efficient functioning of BRPM.</p>	<p><i>Level of priority: Intermediate</i> <i>Implementation deadline: IV quarter 2015</i> <i>Date of the Final Report: 14th September 2015</i></p> <p>Fill the vacancy of Implementing Manager and initiate amendments of the Rulebook on internal organisation and systematisation with the aim of implementing Recruitment Plan for 2015.</p>	<p>Status: Implemented Level of priority: N/A Implementation deadline: N/A</p> <p>The recommendation related to filling vacancy of Implementing Manager is implemented during the audit. The amendments of the Rulebook on internal organization are initiated.</p> <p>E-MTMA-1 – Decision on the allocation on work post E-MTMA-2 – Initiative for amendments of the Rulebook on internal organisation and systematisation</p>
2.	<p>Personnel Performance Evaluation</p> <p>The Personnel Performance Evaluation outlined in the MoP, respectively in the Law on Civil Servants and State Employees is not performed in the MTMA/BRPM for 2014.</p>	<p><i>Level of priority: Intermediate</i> <i>Implementation deadline: September 2015</i> <i>Date of the Final Report: 14th September 2015</i></p> <p>To perform the evaluations of the personnel performance of employees for 2014, as soon as possible.</p>	<p>Status: Implemented Level of priority: N/A Implementation deadline: N/A</p> <p>Evaluations of the personnel performance of employees is performed in September 2015.</p> <p>E-MTMA-3 - Personnel Performance Evaluations</p>

3.	<p>Retention of employees</p> <p>Employees are the most significant factor of the MCS. Timely and effective project implementation depends on the assurance of a sufficient number of employees with the required experience and knowledge. We noticed that employee from key position (in this and in the next stage of implementation of OPRD) left BRPM (implementing manager), which can have a greater impact on the quality and continuity of business operation, especially in small organisation (envisaged three work posts) such as Department for European Integration and International Cooperation (BRPM).</p> <p>Employees turnover affect the timelines and the quality of work. The effects of the turnover may influence:</p> <ul style="list-style-type: none"> - Productivity- it will usually effect with a downturn since other employees have to add the former employee's duties to their own workload, at least temporarily - Time and funds- it is necessary to spend time and funds for the procedures of new employment, and also certain period of time and higher costs are needed for the transfer of knowledge and trainings - Synergy of team work- when an employee leaves the job, it leads to the weakening of synergy effect of team work. 	<p><i>Level of priority: Intermediate</i> <i>Implementation deadline: Continuously</i> <i>Date of the Final Report: 14th September 2015</i></p> <p>When it is about a small organisation such as BRPM, retention of the trained staff is essential for providing quality work as well as avoidance of overload of the existing staff, therefore we recommend that BRPM should tackle an issue of fluctuation of staff with the aim of ensuring their retention. In this sense, it is necessary to initiate addressing the problems in the implementation of policy of employee retention at the appropriate level and all with a view to a more efficient functioning of MCS.</p>	<p>Status: In progress Level of priority: Intermediate Implementation deadline: Continuously</p> <p>On the XXII meeting of the OS the Head of BRPM highlighted and initiated the issue of retention policy. Since, implementation deadline is: Continuously, further implementation of this recommendation will be followed in the following period.</p> <p>E-MTMA-4 - Minutes on the XXII meeting of the OS</p>
4.	<p>Annual Work Plan and semi-annual monitoring of implementation of the Annual Work Plan</p> <p>Annual Work Plan for 2015, approved by Head of BRPM on 26 January 2015, does not contain all information which are envisaged by the Annex 1- Annual Work Plan in the MoP. Namely, in the AWP for 2015 there is no deadline for implementation of activities.</p> <p>Also, auditee did not perform semi-annual monitoring of implementation of the Annual Work Plan for 2015.</p> <p>Since in the AWP deadlines for implementation of activities are not defined, the success in achieving the objectives of the organisation cannot be fully monitored.</p>	<p><i>Level of priority: Intermediate</i> <i>Implementation deadline: September 2015</i> <i>Date of the Final Report: 14th September 2015</i></p> <p>To define deadlines for implementation of each planned activity and perform the semi-annual monitoring of implementation of the Annual Work Plan.</p>	<p>Status: Implemented Level of priority: N/A Implementation deadline: N/A</p> <p>In the updated Annual Work Plan adopted on 15 September 2015 deadlines for implementation of each planned activity are defined. The semi-annual monitoring of implementation of the Annual Work Plan is performed.</p> <p>E-MTMA-5 – Annual Work Plan for 2015 E-MTMA-6- Semi Annual monitoring of implementation of the AWP</p>
5.	<p>Handover procedures</p> <p>We determined that no handover procedure was conducted when an employee (Implementing Manager) left his position on 14th September 2014.</p>	<p><i>Level of priority: Intermediate</i> <i>Implementation deadline: Continuously</i> <i>Date of the Final Report: 14th September 2015</i></p> <p>In order to provide continuity in work, i.e. to fulfil the purpose of the substitution policy, our recommendation is to undertake all activities prescribed by MoP in cases of replacement (partially or permanently) of staff and with the aim of handing responsibility in the right way</p>	<p>Status: Not implemented Level of priority: Intermediate Implementation deadline: Continuously</p> <p>Given that until the time of preparation of this report replacement of staff has not taken place, auditee has not been in position to implement our recommendation. The implementation of this recommendation will be followed.</p>

6.	<p>Inadequate premises and equipment</p> <p>Working space and adequate equipment are important conditions for undisturbed functioning of the staff, keeping data secured and safe documentation storage. The office used by staff of BRPM is currently inadequate to provide a proper working environment. Besides, it is shared with the other department. We also noticed the lack of equipment (scanners, printers, etc.) and lack of space for archiving documents. This office does not ensure that assets and data are kept secure from interference or physical damage.</p>	<p><i>Level of priority: Intermediate</i> <i>Implementation deadline: IV quarter 2015</i> <i>Date of the Final Report: 14th September 2015</i></p> <p>Providing adequate premises and equipment for the Department for European Integration and International Cooperation in order to ensure the smooth functioning of this Department</p>	<p>Status: Not implemented Level of priority:: Intermediate New implementation deadline: Until the end of II quarter of 2016.</p> <p>The deadline for this finding is extended until the end of II Q 2016, since equipment will be financed from Technical Assistance of the OPRD 2012-2013. The implementation of this recommendation will be followed during our next audit engagement in the MTMA. We have therefore set a new deadline for this finding; however the priority remained the same.</p>
7.	<p>Segregation of duties</p> <p>According to the Substitution Plan approved by Head of BRPM, foreseen substitution for Implementing Manager is Programming Manager or Head of BRPM (depending on activities which need to be done). Having in mind that since September 2014 the job position of Implementing Manager has been vacant, the above-mentioned persons perform tasks from his/her competence. During audit, we determined that the principle of segregation of duties is not provided because Programming Manager was involved in activities of preparation of tender documentation for Works Contract.</p>	<p><i>Level of priority: Intermediate</i> <i>Implementation deadline: Continuously</i> <i>Date of the Report: 14th September 2015</i></p> <p>Functional segregation of tasks within BRPM should ensure segregation between Programming and Programme implementation/monitoring.</p>	<p>Status: In progress Level of priority: Intermediate Implementation deadline: Continuously</p> <p>Since the position of Implementing manager is fulfilled, precondition for functional segregation of tasks between Programming and Programme implementation/ monitoring are created. The implementation of the above mentioned started in practical work. Further implementation of this recommendation will be followed. E-MTMA -7 Appointment of members for Evaluating committee</p>
8.	<p>Risk management/Delay in implementation of project from OPRD 2012-2013</p> <p>During the audit we determined the following:</p> <ul style="list-style-type: none"> - BRPM fulfilled Risk Alert Form in April 2014, in which risk was identified-Delay in implementation - project from OPRD 2012-2013 (<i>Rehabilitation of 12 large slopes, rehabilitation of unstable terrain and building protective gallery at the most critical sections of the main railway line Bar-Vrbnica (Kos-Trebešica-Lutovo-Bratonožići-Bioče-Podgorica)</i>)). The same risk was again identified and assessed in December 2014. In both cases potential consequences were not described. This risk was not assessed as high risk even though possible deviation in implementation period with serious financial impact indicates higher risk. - According to Minutes of the meeting of Risk Management Panel held on 22 December 2014 (RMP for IPA components III, IV and V), one of common risk, for above mentioned IPA components, was N+ 3 rule (Potential loss of EU funds). The obligation of filling the Risk Registers and Risk Action plans was given to all Risk 	<p><i>Level of priority: Intermediate</i> <i>Implementation deadline: Continuously</i> <i>Date of the Final Report: 14th September 2015</i></p> <p>Since Risk Management activity should be understood as an on-going, preventive, proactive and cyclical activity undertaken in different project phases for the purpose of contributing to the success of institutional mission and securing successful project implementation, we recommend more serious approach related to risk management activities, especially in view of necessity of clear definition of mitigation measures, responsibilities assigned to the person/authority, timeline for implementation of</p>	<p>Status: In progress Level of priority: Intermediate Implementation deadline: Continuously</p> <p>Risk Action Plan is adopted. Regarding to delay in implementation of project <i>Rehabilitation of 12 large slopes, rehabilitation of unstable terrain and building protective gallery at the most critical sections of the main railway line Bar-Vrbnica (Kos-Trebešica-Lutovo-Bratonožići-Bioče-Podgorica)</i> on initiative of MTMA the meeting with representative of MTMA as BRPM,</p>

	<p>managers in IPA bodies.</p> <p>- Risk register is updated on 25 December 2014 and identified risk by BRPM related to Delay in implementation- project from OPRD 2012-2013 (Project “<i>Rehabilitation of 12 large slopes</i>”) was included. However, there is no separate action plan.</p> <p>In our opinion, it was necessary to adopt Risk Action Plan (although this risk was not assessed as high risk), first of all because of the importance of implementation of this project and because of reducing risk N+3 rule (Potential loss of EU funds) to acceptable level, respectively. One more reason for necessity of adoption of Risk Action Plan is that template of Risk Register given in the MoP doesn’t include <i>Person in charge for the implementation and follow-up of the corrective action and Deadlines (date until which the risks should be resolved or controlled)</i>. On the other hand, template of IPA Risk Action Plan given in the MoP includes mitigation measures, responsibilities assigned to the person/authority, timeline for implementation of measures and actions already undertaken (follow-up information).</p> <p>The process of risk management is one of the key processes in organisation because of its role in achieving objectives of organisation. Organisation management has the responsibility for risk management process and it demands its active role.</p> <p>Key to successful risk management is consideration and resolution of problems before it is too late to address them effectively. That is why a clear definition of mitigation measures, responsibilities assigned to the person/authority, timeline for implementation of measures and actions already undertaken (follow-up information) is necessary. In this specific case, inadequate risk management may finally lead to abandonment of implementation of the above-mentioned project, namely after more than a year from the moment of risk identification.</p>	<p>measures and actions already undertaken (follow-up information).</p>	<p>MSDT as BROP, DPW as IB, NIPAC office and Railway infrastructure as end recipient was held. The implementation of this recommendation will be followed.</p> <p>E-MTMA-8 Risk Action Plan E-MTMA-9 Minutes from held meeting and attendance sheet.</p>
9.	<p>Capacity in Internal audit unit</p> <p>The requirements laid down in the Rulebook do not include requirement related to Certificate for internal auditor.</p> <p>According to Article 18 of the Law on Internal Financial Control in public sector IAD shouldn’t have less than 3 internal auditors including head of the IAD. For the Internal Audit Department of the Ministry of Transport and Maritime Affairs the Rulebook of Internal organization and systematization foresees 3 internal auditors. Two internal auditors (senior and junior) are employed. The function of Head of the Internal Audit Department is vacant.</p> <p>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. If insufficient independent reviews are executed, there is a risk that top management does not have the needed oversight of, and insight in, the effectiveness and efficiency of the management and control system.</p>	<p><i>Level of priority: Intermediate</i> <i>Implementation deadline: December 2015</i> <i>Date of the Final Report: 14th September 2015</i></p> <p>To harmonize professional requirements in Rulebook with Article 34 of the Law on Internal Financial Control in public sector. Also, in order to ensure effective functioning of the Internal Audit Department, we recommend filling the vacancy in the Internal Audit Department.</p>	<p>Status: In progress Level of priority: Intermediate New implementation deadline: Until the end of I quarter 2016.</p> <p>The preparation of the Rulebook of internal organization and systematization of the Ministry of Transport and Maritime Affairs is in process. Internal Audit Department of MTMA initiated proposal of changes in order to harmonize professional requirements in the Rulebook with Article 34 of the Law on Internal Financial Control in public sector.</p> <p>By the decision on granting temporary authorization No 12-3287/1 from 31/07/2015. senior internal auditor was temporarily authorized by the Minister to</p>

			<p>manage the work of the Department of Internal Audit.</p> <p>The implementation of this recommendation will be followed during our next audit engagement in the MTMA.</p> <p>E-MTMA-10 Proposal for changes in Rulebook</p> <p>E-MTMA-11 Decision on granting temporary authorization No 12-3287/1 from 31.07.2015.</p>
10.	<p>Annual planning (IAD)</p> <p>The annual plan for 2015, approved by Minister in December 2014, in part of list of planned audit include audit subject, title of audit, type of audit, risk, approved audit days and scope of the audit. In above mentioned plan for Audit of IPA funds audit subject and type of the audit are not included.</p>	<p><i>Level of priority: Intermediate</i> <i>Implementation deadline: December 2015</i> <i>Date of the Final Report: 14th September 2015</i></p> <p>Annual plan should include audit subject and type of the audit. Also, in our opinion in the above mentioned plan timeframe for each planning audit should be given.</p>	<p>Status: Partially Implemented New level of priority: Minor Implementation deadline: December 2015</p> <p>Amendment to the annual work plan for 2015 No 11-SI/1 were made on 01 October 2015 and it defines the subject and type of the audit. The recommendation has not been implemented yet, but the deadline for implementation has not expired.</p> <p>In accordance with the statement of employees in IAD timeframe for each planning audit will be defined in Annual plan for 2016. The annual plan for 2016 will be completed to 31 December 2015.</p> <p>The implementation of the part of this recommendation will be followed during our next audit engagements in the MTMA. We set a new priority level (minor), but deadline for this finding remained the same.</p> <p>E-MTMA-12 Amendment to the annual work plan for 2015</p>
11.	<p>Preparation of Statement of Assurance</p> <p>The self-assessment questionnaire was fulfilled at the level of IPA body. However, we determined the following:</p> <ul style="list-style-type: none"> - In the above-mentioned guidelines apart from the self-assessment questionnaire (Annex 2a) Annex 4 is given as well, in which there is a list of supporting documentation which should be submitted by bodies of OS to HOS, i.e. by HOS to NAO. However, there is a contradiction between the mentioned annexes. E.g. in the questionnaires the question "Is the register of weaknesses determined by the internal controls kept?" is marked as N/A, while the Annex 4 requires the 	<p><i>Level of priority: Intermediate</i> <i>Implementation deadline: December 2015</i> <i>Date of the Final Report: 14th September 2015</i></p> <p>Since SoA is an essential process to provide annual assurance to the NAO and to the EC services, it is necessary to raise awareness within MTMA about it.</p>	<p>Status: In progress Level of priority: Intermediate New implementation deadline: January 2015</p> <p>The new MoP Version 5.0 entered into force on 01st December 2015. In the MoP version 5.0 (Chapter Statement of Assurance) the clarification has been made</p>

	<p>submission of the Register of internal control weaknesses (MoP Part I, Chapter Internal control, Annex 6- Register of internal control weaknesses); There are discrepancies between answers to certain questions and references to affirmative answers. For example:</p> <p>- To question: Was the induction training conducted and was the introductory set of documents for newly-employed forwarded? The answer was YES, despite the fact that during 2014 there were no newly-employed. Apart from that, the reference to positive answer is: mentioned activities will be implemented in compliance with obligations defined in the Manual of Procedures.</p> <p>-To question: Is the internal audit plan implemented and is the report prepared? The answer is YES, although during 2014 audit of IPA bodies (MTMA/BRPM) was not conducted. Reference to positive answer gives explanations about responsibilities of IAD in view of planning and reporting of IAD.</p> <p>Filling the questionnaire on this manner questions its basic purpose and whether it serves as a support to Head of BRPM in the assessment of maintenance of accreditation criteria, respectively. Statement of Assurance issued by Head of BRPM is not supported by a Report in which the Head of BRPM should provide information on the activities/results/facts which have been implemented /achieved.</p>	<p>Statement of assurance should be supported by a Report in which the Head of BRPM should provide information on the activities/results/facts which have been implemented /achieved.</p>	<p>in respect to the documents that have to be submitted by BRPM.</p> <p>We set a new deadline for this finding; however the priority remained the same.</p> <p>The implementation of this recommendation will be followed during our next audit engagement in the MTMA.</p>
12.	<p>Preparation of Draft Prior Information Notice</p> <p>Works Contract Prior Information Notice Design and construction of the New ETS "Trebešica" (Open procedure (higher than €5,000,000)) was published on 10 March 2015, however it is not drafted by BRPM. Draft PIN was prepared by Implementing Body (Directorate for Public Works) and submitted to BRPM for comments.</p>	<p><i>Level of priority: Intermediate</i> <i>Implementation deadline: Continuously</i> <i>Date of the Final Report: 14th September 2015</i></p> <p>Conducting activities and tasks in accordance to the Operational Agreement, Manual of Procedures and Job description, in order to ensure that each member of staff clearly understands own tasks and responsibilities.</p>	<p>Status: In progress Level of priority: Intermediate Implementation deadline: Continuously</p> <p>Given that the BRPM filled the position of Implementing manager, preconditions for conducting activities and tasks in accordance to the Operational Agreement, Manual of Procedures and Job description, in order to ensure that each member of staff clearly understands their own tasks and responsibilities, are created.</p> <p>The implementation of this recommendation will be followed during our next audit engagement in the MTMA.</p>
13.	<p>Audit trail – Tender documentation (specific to each type of contact)</p> <p>Adequate and sufficient audit trail are not ensured for implementation activities by BRPM related to the submission to Head of IB of the <i>draft Terms of Reference, Short List and budget estimate</i> for Service contract Design Review and FIDIC Engineer for ETS "Trebešica" Design-Build contract (<i>Competitive Negotiated Procedure (less than €300,000)</i>).</p>	<p><i>Level of priority: Intermediate</i> <i>Implementation deadline: Continuously</i> <i>Date of the Final Report: 14th September 2015</i></p> <p>To ensure adequate audit trail for each activity performed by BRPM.</p>	<p>Status: In progress Level of priority: Intermediate Implementation deadline: Continuously</p> <p>Audit trail is ensured for implementation activities by BRPM related to the submission of the Draft of tender documentation for Works contract</p>

			<p>“Railway Section Virpazar-Sozina” to the Head of IB.</p> <p>Further implementation of this recommendation will be followed during our next audit engagement in the MTMA.</p> <p>E-MTMA-13 Letter by Head of BRPM to Head of IB (Submission the Draft of tender documentation)</p>
NATIONAL FUND			
1.	<p>Written procedures - Manual of Procedures</p> <p>Processes of amending, preparing, approving and distribution of the MoP are adequately performed. However, during carrying out the audit we determined that some chapters of the MoP related to audited areas, are not clearly described and are not harmonized with national legislation. This may cause dilemmas in work of employees.</p> <p>In order to enhance clearness, examples related to above mentioned and recommendations for improvement of written procedures are given in the Annex I of the Final Report.</p>	<p><i>Level of priority: Intermediate</i> <i>Implementation deadline: December, 2015</i> <i>Date of Final Report: 8th September 2015</i></p> <p>We recommend to harmonize MoP with Law on Civil Servants and Employees (OG MNE No 39/11; 50/11, 66/12 and 34/14).</p> <p>We recommend harmonization of template of Risk register with explanation followed this template.</p>	<p>Status: Implemented Level of priority: N/A Implementation deadline: N/A</p> <p>New version of MoP (version 5.0) was adopted adopted and entered into force on 1st December 2015. MoP has been revised in accordance with AA recommendation.</p> <p>E-NF -1 MoP</p>
2.	<p>Preparation of Statement of Assurance</p> <p>NAO and NF prepared and submitted Guidelines for process of issuing the first official Statement of Assurance for 2014 to all bodies within Component III and Component IV.</p> <p>In the above-mentioned guidelines apart from the self-assessment questionnaires (Annex 2a and Annex 2b), Annex 4 is given as well, in which there is a list of supporting documentation which should be submitted by bodies of OS to HOS, i.e. by HOS to NAO. However, there is a contradiction between the mentioned annexes. E.g. in the questionnaires the question “Is the register of weaknesses determined by the internal controls kept?” is marked as N/A, while the Annex 4 requires the submission of the Register of internal control weaknesses (MoP Part I, Chapter Internal control, Annex 6- Register of internal control weaknesses).</p> <p>According the NF guidelines it is not requested from other bodies from OS to send report, as supporting document of SoA, except from the HOS (Annex 5) and in the MoP all bodies need to send the report in which the Heads of the bodies should provide information on the activities/results/facts which have been implemented /achieved, as supporting document of SoA.</p>	<p>Level of priority: Intermediate Implementation deadline: December, 2015 Date of Final Report: 8th September 2015</p> <p>Since SoA is an essential process to provide annual assurance to the NAO and to the EC services, it is necessary to raise awareness within bodies of Operating Structure about it.</p> <p>We also recommend to take appropriate activities which will lead to clearer methodology for issuing SoA in the future period and compliance with the MoPs.</p>	<p>Status: In progress New priority level: Minor New implementation deadline: February 2016</p> <p>The new MoP Version 5.0 entered into force on 01st December 2015. In the MoP version 5.0 (Chapter Statement of Assurance) the clarification has been made in respect to the documents that have to be submitted by the OS bodies.</p> <p>In order to raise awareness within bodies of Operating Structure about SoA workshops are organized.</p> <p>The implementation of this recommendation will be followed during our next audit engagements in the NF.</p> <p>We set a new priority level (minor) and new deadline for this finding.</p> <p>E-NF-2 MoP – Chapter Statement of Assurance E-NF-3 Attendance sheet- Process of issuing SoA E-NF-4 Attendance sheet- Irregularities</p>

3.	<p>Communication between NAO and CAO</p> <p>According to the Article 27 of the EC COMMISSION REGULATION (EC) No 718/2007 of 12 June 2007: “The NAO shall make an annual management declaration, which shall take the form of a statement of assurance to be presented to the Commission by 28 February each year. He shall forward a copy of the statement of assurance to the Competent Accreditation Officer.”</p> <p>According to the submitted documentation, NAO sent the SoA for Component III and Component IV to the EC according deadlines, but the NAO did not sent the copy of SoA to the CAO, for component III neither for component IV.</p>	<p><i>Level of priority: Intermediate</i> <i>Implementation deadline: October, 2015</i> <i>Date of Final Report: 8th September 2015</i></p> <p>We recommend to send the copies of SoAs – 2014 for Component III and Component IV to the CAO. We recommend that during the next issuing of the SoA without fail send the copy to the CAO in order to respect all procedures.</p>	<p>Status: Implemented Level of priority: N/A Implementation deadline: N/A</p> <p>NAO/NF sent the copies of SoAs – 2014 for Component III and Component IV to the CAO.</p> <p>E-NF-5-Cover letter SoA to CAO for Component III E-NF-6-Cover letter SoA to CAO for Component IV</p>
4.	<p>Risk Management Panel</p> <p>In the period under review, two joint RMP meetings for IPA components III, IV and V are held, in July and in December 2014. For both held RMP meetings, Risk Registers are actualized for all above mentioned components.</p> <p>Insight the provided Risk Registers we noticed that most of identified risks are at horizontal level. Since the identified risks from the first RMP were still presented in Risk Register from RMP in December 2014. and given Risk Registers do not provide deadlines and responsible person for the implementation and follow-up of the corrective action, clear definition of mitigation measures, responsibilities assigned to the person/authority, timeline for implementation of measures and actions already undertaken (follow-up information) is necessary.</p> <p>Also, it is a duty of the RMC, if participation of the IPA management cannot be ensured, to send minutes of the meeting, actualized Risk Registers and summary risk information to NAO during 2 weeks after RMP meeting.</p> <p>The RMC did not send above mentioned documents after held RMP meetings.</p>	<p><i>Level of priority: Intermediate</i> <i>Implementation deadline: December, 2015</i> <i>Date of Final Report: 8th September 2015</i></p> <p>Since the most of identified risks are at horizontal level, means that those risks are deal with almost all bodies from OSs for components III, IV and V, which definitely increases the importance of the identified risks we recommend to convoke overall RMP to propose and apply prompt and most effective remedial actions in order to mitigate or eliminate identified risks.</p> <p>In order to respect the procedures we recommend to send minutes of the meetings, actualized Risk Registers and summary risk information to NAO during 2 weeks after every RMP meeting.</p>	<p>Status: Not implemented Level of priority: Intermediate Implementation deadline: December, 2015</p> <p>According to the gathered information the recommendation has not been implemented yet, but the deadline for implementation has not expired.</p> <p>According to the gathered information the recommendation has not been implemented yet, but the deadline for implementation has not expired.</p>
5.	<p>Verification of the existence and correctness of the co-financing elements</p> <p>According to MoP, the Chapter Financial Management describes rules which regulate aspects of financial management of NF in order to ensure that final beneficiaries receive the overall amount of public contribution at a time and completely.</p> <p>One of the basic tasks of NAO/NF is the verification of the existence and correctness of the co-financing elements. During the audit are determined weaknesses in performing tasks related to verification of existence and correctness of the co-financing elements.</p> <p>IBs for III and IV Component (Directorate of Public Works and CFCU) submitted requests for spending within the legal deadline according to the Law on Budget and Fiscal Responsibility.</p> <p>Pursuant to the Law on Budget for 2015, funds are planned on the positions of IB only for disbursements which are financed from the general incomes (co-financing)</p>	<p><i>Level of priority: Intermediate</i> <i>Implementation deadline: November, 2016</i> <i>Date of Final Report: 8th September 2015</i></p> <p>It is recommended that NAO/NF should approach with more attention and responsibility to the analysis of existence and correctness of the co-financing elements contained in the requests for necessary funds, submitted by IB, during planning the Budget for the following year.</p> <p>Implementation of above mentioned recommendation would contribute to removal of determined weaknesses and omissions which will result in better</p>	<p>Status: In progress Level of priority: Intermediate Implementation deadline: November, 2016</p> <p>The initiative for changing the Chart of the accounts is launched.</p> <p>The deadline for implementation has not expired yet.</p> <p>E-NF-7- Letter for changing Chart of the accounts</p>

	<p>related to projects. Disbursements which are financed from EU donations are not planned in the Budget for 2015. From the previous, it can be concluded that there was a difference between the required and approved funds.</p> <p>There is no audit trail that the Financial management of NF informed HNF on evident differences and there is no audit trail on carrying out analysis (by the NAO) of justification of elements contained in requests of IB for necessary funds.</p>	management and usage of IPA funds which Montenegro has at its disposal.	
6.	<p>Correctness of the planning of co-financing (EU and national)</p> <p>EU funds which Montenegro uses from IPA funds are planned and executed according to the Law on Budget and Fiscal Responsibility (hereinafter: Law) for the respective year and they are integrated with the national funds in unique payment system through State Treasury of the Ministry of Finance. Financial management by means of Law achieves transparency of financial flows. National co-financing is provided from the state budget funds. Funds for financing projects of EU from the source of EU donations and General incomes and receipts are planned by the Law. Above-mentioned funds are allocated to projects within financial plans of budget beneficiaries and Implementing Bodies which carry out payments to the final beneficiaries for the priority axis, which is within their competence.</p> <p>NAO is obliged to check the existence and the correctness of the planned co-financing (EU and national).i.e. to ensure that necessary amounts of EU and national co-financing are included in budget proposal before the annual Law on Budget is submitted to the Government for adoption (Article 10 Item 1 of the Implementing Agreement between NAO and HOS for OP for Regional Development 2012-2013 and Article 10 Item 3 of the Implementing Agreement between NAO and HOS for OP for Development of Human Resources 2012-2013).</p> <p>Pursuant to the Article 3 of the Law on Budget for 2015 receipts by types and economic classification are planned. On the position 7411 current donations in the amount of 6.592.119,81 € are planned. During the audit we could not determine whether this whole amount refers to EU donation or it contains other donations which refer to EU assistance.</p> <p>Pursuant to the Article 150 of the Instructions of State Treasury Operations programs financed from EU funds must have labels "EU donations". Thus EU donations should be planned under that name and registered by class, category, group and synthetics on the special account which was not done by the Law on Budget for 2015. According to this, the principle of transparency is breached.</p> <p>According to the Law on Budget 2015, funds are planned on the positions of IBs (Directorate for public works, for Component III and CFCU for Component IV) only for expenditures which are financed from general income (co-financing) related to projects. Expenditures which are financed from EU donations are not planned in the Budget for 2015.</p> <p>This manner of planning the budget is not in accordance with Article 4 Paragraph 5 of the Law on budget and fiscal responsibility ("Official Gazette of Montenegro", no. 20/14 from 25/04/2014, 56/14 from 24/12/2014) where it stands that expenditure should be balanced with receipts.</p>	<p><i>Level of priority: Intermediate</i> <i>Implementation deadline: November, 2016</i> <i>Date of Final Report: 8th September 2015</i></p> <p>We recommend that EU funds should be planned in the annual Law on Budget under the name of "EU donations" and that it should be registered by class, category, group, synthetics on the special account.</p> <p>We recommend that expenditure which is financed from EU donations should be planned in the annual Law on Budget on the expenditure side of the budget units of DPW and CFCU (Implementing bodies for III and IV components).</p>	<p>Status: In progress Level of priority: Intermediate Implementation deadline: November, 2016</p> <p>The initiative for changing the Chart of the accounts is launched. The deadline for implementation has not expired yet.</p> <p>E-NF-7- Letter for changing Chart of the accounts</p>

- **Conclusion on the functioning of MCS within OPRD for period ended on 30 September 2015**

Our conclusion on the functioning of the management and control system for the period ended on 30 September 2015 is based on the audit work carried out during 2014 and 2015 calendar years. In that period AA carried out system audits and the follow-up of the findings and recommendations given in the course of these audits. Final system audit Report of each body was submitted to the EC-DG Regio. List of audit reports submitted to the Commission - DG Regio is given in Annex E to this Report. Also, during 2015 AA continuously monitored the implementation of OPRD and collected the information on the changes in the system.

It is important to emphasize again that since the Financing Agreement was signed on 05 December 2014 and European Commission carried out advance payment on 18 December 2014 and having in mind that during our audits there were no signed contracts, no payment made, no actual transactions have taken place yet, we have not carried out audit of operations but only system audits. 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 OPRD under the period of performing our audits.

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. We summarized the findings of each body according to the audit area. We also stress the fact that there are no major findings.

On the basis of 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, Table 6.

Therefore, on the basis of the work done in the system audits 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 01 October 2014 – 30 September 2015 functioned effectively. Consequently, for the period ended on 30 September 2015 we will issue an unqualified opinion.

6. AUDITS OF SAMPLE OF OPERATIONS

Not applicable – see point 1.4.

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

In previous years no audits have been performed by the AA and as a consequence no recommendations needed follow-up.

9. RESOURCES USED BY THE AUDIT AUTHORITY

The AA carried out all audits in 2015 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 auditors from the Unit. However, one junior auditor from Unit for IPA Component V was engaged as audit team member in conducting system audits in DPW and MSDT.

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 01 OCTOBER 2014 UNTIL 30 SEPTEMBER 2015

AAWP for the period from 01 October 2014 until 30 September 2015 was prepared and submitted to the EC and NAO in September 2014.

In this respect, overview table of planned audit activities containing activities planned in period 01 October 2014 – 30 September 2015 are enclosed in the attachment.

No.	NAME OF THE AUDIT (AUDIT OBJECT)	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-May 2015	System audit	
2.	Functioning of the MCS	Verify functioning of management and control system	Ministry of Sustainable Development and Tourism (HOS, BROP, BRPM)	January-May 2015	System audit	
3.	Functioning of the MCS	Verify functioning of management and control system	Ministry of Transport and Maritime Affairs (BRPM)	May -September 2015	System audit	
COMMON BODIE FOR COMPONENT III AND OTHER IPA COMPONENTS						
4.	Functioning of the MCS	Verify functioning of management and control system	National Fund	May-September 2015	System audit	Joint audit

ANNEX B: LIST OF FINDINGS FROM SYSTEM AUDITS CARRIED OUT FROM 01 OCTOBER UNTIL 30 SEPTEMBER 2015

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

No	Finding	Priority level	Reference to Section of Report
DIRECTORATE FOR PUBLIC WORKS (DPW) - IB			
1	Work Load Analysis	Intermediate	4.2.1
2	Lack of staff, Recruitment Plan and Recruitment	Intermediate	4.2.2
3	Training	Intermediate	4.2.3
4	Internal acts and polices, responsible persons, Job Descriptions, Substitution policy and Segregation of duties	Intermediate	4.2.4
5	Preparation of Statement of Assurance	Intermediate	4.4.1
6	Budget Planning	Intermediate	4.5.1
7	Commitments and Disbursement Status	Intermediate	4.5.2
8	Written Procedures – Manual of Procedures	Minor	4.1.1
9	Monitoring of implementation of Work Plan-audit trail	Minor	4.2.5
10	Trainings for employees in area Risk Management/attendance on the Risk Management Panel/Risk Register	Minor	4.3.1
MINISTRY OF SUSTAINABLE DEVELOPMENT AND TOURISM (MSDT) - BROP/BRPM			
1	Written Procedures – Manual of Procedures	Intermediate	4.1.1
2	Training	Intermediate	4.2.1
3	Handover procedures	Intermediate	4.2.3
4	Inadequate audit trail relating to performed on-the-spot checks and management verification in tendering	Intermediate	4.3.1
5	Capacity in Internal audit unit and qualifications of internal auditors	Intermediate	4.4.1
6	Preparation of Statement of Assurance	Intermediate	4.5.1
7	Job Descriptions	Minor	4.2.2
MINISTRY OF TRANSPORT AND MARITIME AFFAIRS (MTMA) - BRPM			
1	Lack of staff	Intermediate	4.2.1
2	Personnel Performance Evaluation	Intermediate	4.2.3
3	Retention of employees	Intermediate	4.2.4
4	Annual Work Plan and semi-annual monitoring of implementation of the Annual Work Plan	Intermediate	4.2.5
5	Handover procedures	Intermediate	4.2.6
6	Inadequate premises and equipment	Intermediate	4.2.7
7	Segregation of duties	Intermediate	4.2.8
8	Risk management / Delay in implementation - project from OPRD 2012-2013	Intermediate	4.3.1
9	Capacity in Internal audit unit	Intermediate	4.4.1
10	Annual Planning	Intermediate	4.4.2
11	Preparation of Statement of Assurance	Intermediate	4.5.1
12	Preparation of Draft Prior Information Notice	Intermediate	4.6.1
13	Audit trail – Tender documentation (specific to each type of contact)	Intermediate	4.6.2
14	Written procedures-Manual of Procedures	Minor	4.1.1
15	Training plan and training reports	Minor	4.2.2
16	Coordination meetings	Minor	4.7.1

NATIONAL FUND (NF)			
1	Written procedures - Manual of Procedures	Intermediate	4.1.1
2	Preparation of Statement of Assurance	Intermediate	4.3.1
3	Communication between NAO and CAO	Intermediate	4.3.2
4	Risk Management Panel	Intermediate	4.4.1
5	Verification of the existence and correctness of the co-financing elements	Intermediate	4.5.1
6	Correctness of the planning of co-financing (EU and national)	Intermediate	4.5.2
7	Incompatibility of decisions on employment with the Rulebook on internal organization and systematization	Minor	4.2.1

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

Date of performance of the systems audit*	Programme / system audited	Auditing entity	Expenditure declared in reference year⁴	Total cumulative expenditure declared⁵	Basis of selection of the programme⁶
December 2015-April 2015	OPRD 2012ME16IPO001	Directorate for Public Works – IB	n/a	n/a	Risk assessment
April-June	OPRD 2012ME16IPO001	Ministry of Sustainable Development and Tourism – BROP/BRPM	n/a	n/a	Risk assessment
June-September	OPRD 2012ME16IPO001	Ministry of Transport and Maritime Affairs – BRPM	/na	n/a	Risk assessment
May-September	OPRD 2012ME16IPO001	National Fund - NF	n/a	n/a	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

⁴ There is no expenditure declared in reference year

⁵ There is no expenditure declared in reference year

⁶ 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 D: SUMMARY LIST FOR DECLARED EXPENDITURE AND SAMPLE AUDITS CARRIED OUT FROM 01 OCTOBER UNTIL 30 SEPTEMBER 2015

[illegible]

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

System audits reports		Date of submission of the Report to EC-DG Regio
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”	16 th June 2015
2.	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	16 th June 2015
3.	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	2 th October 2015
4.	System Audit Report on the audit of Functioning of Management and Control System in National Fund	2 th October 2015