



MONTENEGRO

AUDIT AUTHORITY

No: 3011-4-06-309

Date: December 30th 2015

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

OPERATIONAL PROGRAMME HUMAN RESOURCES DEVELOPMENT 2012-2013

(CCI 2007 ME 05I PO 001)

FOR THE PERIOD FROM 01st OCTOBER 2014
UNTIL 30th 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
CFCU	Central Finance and Contracting Unit
CAO	Competent Accrediting Officer
CDT	Commitments and Disbursements Status Table
DG EMPL	Directorate General for Employment, Social Affairs and Inclusion
EU	European Union
EC	European Commission
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
MLSW	Ministry of Labour and Social Welfare
MF	Ministry of Finance
NAO	National Authorizing Officer
NF	National Fund
NIPAC	National IPA Coordinator
OG	Official Gazette
OP	Operational Programme
OS	Operating Structure
OP HRD	Human Resources Development Operational Programme
Rulebook	Rulebook on internal organization and systematization
SoA	Statement of Assurance
WLA	Work Load Analysis

1. INTRODUCTION

1.1. Operational programme of IPA covered by the report

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

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

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

- **National Authorising Officer**, Director General of Directorate of the State Treasury within Ministry of Finance bears overall responsibility for the financial management of EU funds in Montenegro and the regularity and legality of the underlying transactions.
- **National Fund**, within Directorate of the State Treasury in Ministry of Finance, operationally supports NAO.
- **Operating Structure** which encompasses:
 - **Ministry of Labour and Social Welfare** as Body responsible for the Operational Programme and Body responsible for priority axis 1,3 and 4 and measures in the field of the labour and employment in particular the priorities and measures 1.1, 3.1, 4.1 and 4.2,
 - **Ministry of Education** as Body responsible for priority axis 2 and measures in the field of education in particular the measure 2.1,
 - **Ministry of Science** as Body responsible for priority axis 2 and measures in the field of research and innovation in particular the measure 2.2.
 - **Central Finance and Contracting Unit (CFCU)** acting as Implementing Body (Contracting Authority) for all measures implemented within IPA Component IV.

1.2. Bodies involved in the preparation of this report

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

The AA of Montenegro, as an independent audit body, was established by the Law on Audit of EU Funds (“Official Gazette of Montenegro”, no 14/12 from 7th 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 the Law on Audit of EU funds, the AA is functionally and operationally independent of all actors in EU funds management and control system.

In terms of the organisational setup this means that the AA is set up as a functionally independent body that 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 IV component specific.

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

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

The AA should submit an Annual Audit Activity Report (AAAR) and Annual Audit Opinion (AAO) following the model set out in Annexes C and D of the Framework Agreement, on the basis of the audit activities carried out from 01st October 2014 until 30th 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) submitted to the EC-DG EMPL on 29th September 2014.

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

In the period November – December 2015 as a separate activity before issuing the AAAR and the 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 the above mentioned periods, is provided. The AA prepared the AAAR on its own, taking into

consideration that the AA does not rely on the work of other audit bodies in carrying out its functions.

1.4. Audit scope

In the period 01st October 2014 – 30th 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 1st January until 31st December 2014¹ as well as in the period covered by this report, there were no signed contracts, no payments 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 No 718/2007, i.e. accreditation criteria provided in the Annex of this Regulation, the Framework Agreement and the requirements set out in other agreements and regulations, and to check whether the established system functions effectively.

Since the Financing Agreement was signed on 05th December 2014 and the European Commission carried out advance payment on 17th December 2014 in the amount of 1.647.900,00 €, and having in mind that during our audits there were no signed contracts, no payment made, no actual transactions have taken place yet, auditors have carried out examinations of the effectiveness and efficiency of the management and control systems in auditees to the extent possible at the current stage of implementation of OPHRD 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 at the current stage of implementation of OP.

For the purpose of detailed defining of the scope of the each audit, in the planning phase we performed a detailed risk assessment to determine the priority processes in conducting system audits. During the risk assessment, based on gathered documentation, risks were identified and

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.

taken into account at the level of each process. Therefore, based on the level of implementation of OPHRD, available AA's resources and all collected information and documentation as well as the results of risk assessment, the following audit areas were examined:

- Internal Organization and Human Resource Management, Management Verification, Internal Audit, Risk Management and Statement of Assurance in **Ministry of Labour and Social Welfare as Body responsible for the Operational Programme and Body responsible** for priority axis 1,3 and 4 and measures in the field of the labour and employment in particular the priorities and measures 1.1, 3.1, 4.1 and 4.2,
- Internal organization and Human Recourses, Internal Audit, Financial Management, Statement of Assurance, Risk Management and Publicity and visibility, in **Central Finance and Contracting Unit (CFCU) acting as Implementing Body** (Contracting Authority) for all measures implemented within IPA Component IV.
- 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:

- Ministry of Labour and Social Welfare (BROP/BRPM);
- Directorate for Finance and Contracting of the EU Assistance Found (CFCU);
- National Fund.

Follow-up covered the results of the audits in all bodies from the operational programme in which the AA carried out audits in previous periods. 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 30th 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 two bodies of Operating structure and also in National Fund, which is common body to 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
MLSW	-	6	5
CFCU	-	9	3
NF	-	6	1

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

2.1 Summary of findings from system audit

By the mid-September 2015 system audits of BROP/BRPM, CFCU (IB) 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 of these audits. Number of system findings per audited area/process in these bodies is given in table below.

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

Audit Process	MLSW	CFCU	NF	Total
Internal Organisation and Human Resources	5	3	1	9
Internal Audit	1	1	-	2
Risk Management	2	1	1	4
Statement of Assurance	0	2	2	4
Management Verification	0	-	-	0

Financial Management	-	1	2	3
Publicity and Visibility	-	1	-	1
Verification by NAO	-	-	0	0
Bank Account System	-	-	0	0
Accounting	-	-	0	0
Written Procedures	3	3	1	7
Total	11	12	7	30

Major finding were not identified.

The main findings were identified regarding internal organization and human resource management. The number of findings in this audit area is 9 and 7 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 (Understaffing, Lack of the Recruitment plan, Inadequate Substitution plan, Insufficiently trained, Inadequate premises, Inadequate internal organisation, Insufficient legal basis for employed, Non-compliance of decisions on employment with the Rulebook on internal organisation and systematization, Inadequate description of the recruitment procedure, Incompliance appraisal procedures, Incomplete WLA), improvements are needed.

Internal audit in the Ministry of Labour and Social Welfare and Ministry of Finance is established and it functions in compliance with the national legislation. By reviewing the Internal Audit Units documentation, and based on the performed interview with responsible employees of the

Internal Audit Unit, we concluded the lack of the staff of the Internal Audit Department is identified (MLSW). Furthermore, it has been determined that in the Internal Audit Department of the Ministry of Finance, Training Strategy has not been developed and Training Plan for 2015 has not been adopted as it was prescribed in the Manual for Internal Audit. We have also come to the conclusion that staff of the Internal Audit Department is not trained enough for practical performance of audit of EU funds and functioning of management and control system of EU funds. Based on the indicated, some improvements are needed.

By reviewing the Risk Management documentation and other business documentation and based on performed interview with responsible employees in MLSW, CFCU and NF, we identified that employees are familiar with the requirements regarding the risk management described in the MoP. However, some improvements concerning MoP are needed, especially in accordance with harmonization of template of Risk register with description that follows this template.

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

- Financial Management process we examined in Directorate for Financing and Contracting of EU Assistance Found (CFCU). Comparing data from Requests for allocation of budgetary funds with data which refer to planned disbursement for all

priorities and measures from OP, we concluded that national co-financing funds for Grants are not included in Requests for allocation of budgetary funds for three years period.

- 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 (CFCU for Component IV and Directorate for Public Works for Component III) 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.

Analysing the process of issuance of Statement of Assurance in CFCU and NF for 2014, the following deficiencies were identified: Statement of Assurance was not supported by the Report which was prescribed in the MoP (in CFCU and NF), and also the insufficient number of trainings for preparation and issuance of Statement of Assurance is evident (CFCU).

Analysing procedures and documentation which refer to the process of Publicity and Visibility in the CFCU (IB), we concluded that the person performing duty of Publicity Officer does not have the full competence with regard to prescribed duties.

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

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. Concerning the financial management process, issues of the planning of co-financing (national and EU) have been identified in the CFCU and NF. The necessary number of employees with the adequate knowledge and experience in the Internal Audit Departments in the Ministry of Finance and in the Ministry of Labor and Social Welfare is not ensured. In accordance with the Statement of Assurance process we concluded that SoA was not supported by the Report which was prescribed in the MoP and also the insufficient number of trainings for preparation and issuance of Statement of Assurance is evident. Publicity Officer does not have full competence in the CFCU. 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, categorised by their level of importance (major, intermediate and minor) is laid down in Annex B to the AAAR.

3. CHANGES IN MANAGEMENT AND CONTROL SYSTEMS

In our last AAAR we reported on significant changes in the management and control systems (MCS) in the period from 28th July and 30th September 2014 and in the period 01st October until mid-December 2014.

3.1. Changes in the MCS since last AAAR

- **Change of Head of Operating Structure for IPA Component IV**

At the session held on 13th 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. Mrs Ljiljana Simović is appointed on a function of Head of Operating Structure instead of Mr Vladimir Radovanić.

Mr Miodrag Radonjić (NAO) introduced European Commission- Directorate General for Employment, Social Affairs and Inclusion to the forthcoming change in the letter 06-2332/1 from 20th May 2015.

- **Organizational changes of the Ministry of Labour and Social Welfare**

The Government of Montenegro on its session held on March 5th 2015 adopted the Rulebook on internal organization and systematization of the Ministry of Labour and Social Welfare. By the new Rulebook, Department for Programming and Implementation of EU Funds, which functions as the BROP/BRPM, becomes Division for Programming and Implementation of EU Funds within the a newly formed Directorate for European Integration, Programming and Implementation of EU Funds in the Ministry of Labour and Social Welfare.

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

Previous organizational structure	Current organizational structure
MINISTER of MLSW ↓	MINISTER of MLSW ↓
Department for Programming and Implementation of EU Funds	Directorate for European Integration, Programming and Implementation of EU Funds ↓
	Division for Programming and Implementation of EU Funds (BROP/BRPM)

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

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

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

At the session held on 13th 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 in the OG No.70 on 16th December 2015.

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

- Change of Head of the Body Responsible for Priority/Measure in Ministry of Science**

At the session held on 13th November 2015, Government of Montenegro adopted the Decision on appointment of persons responsible for carrying out the decentralised management of pre-accession EU funds by which Smilja Kažić Vujačić, Head of Department for International Programs and EU Integration at the Ministry of Science was appointed as Head of the Body Responsible for Priority/Measure (BRPM), instead of Mr Darko Petrušić.

- **Change of National Authorizing Officer**

At the session held on 17th December 2015, Government of Montenegro adopted the decision on resignation of Mr Miodrag Radonjić as Director General for the State Treasury as well as NAO. Mr Dragan Darmanović is appointed on a function of Director 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 16th December 2015 (later No: 06-5398/1).

- **Procedural changes**

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

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

In the AAWP of the AA which was submitted on 29th September 2014 to DG EMPL for the audit period 01st October 2014 – 30th September 2015, there were no changes. This AAWP is given in Annex A to this AAAR.

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 01st October 2014 – 30th 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 IV. Risk assessment was performed for the purpose of determining the priorities in conducting system audits through bodies participating in the management and implementation of IPA Component IV.

Risk factors which were identified and taken into account during risk assessment at the level of the bodies were as follows: Number and priority (medium, low) recommendations from Final Report DG-EMPL, Previous experience with EU funded Programmes, Staff planning (WLA, vacant)/Mobility of staff (new 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 next audit period from 01st October until 30th September 2015 include three bodies which participate in management and implementation OPHRD - IPA Component IV.

In accordance with conducted risk assessment, system audits will start in the riskier bodies for this phase of implementation (HOS/BROP/BRPM-MLSW), and after that we continued system audit in CFCU 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 and conclusions, recommendations and corrective measures applied, 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-November 2015 we sent to all bodies in which we during the previous period performed system audits the Table with the summary of findings and recommendations from previous audits. We informed them that we need the follow-up for the preparation of the AAAR which should be submitted to the EC, CAO and NAO by the end of December 2015. Therefore, we requested from all the bodies to include into the Tables their Management response on the status of the individual recommendation with the appropriate explanation, regardless of whether deadline for implementation of

recommendation has expired or not. We also informed them that they should prepare the evidence on the fulfilment of the individual recommendation which will be provided to us.

- At the 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.

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 4 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 5. Conclusions reached through audits and conclusion on the functioning of MCS within OPHRD for period ended on 30th September 2015 are given afterwards.

Table 4 : List of principal findings identified during system audits and status of these findings in December 2015

No.	Findings	Level priority ²	Status in December 2015 ³
MINISTRY OF LABOUR AND SOCIAL WELFARE (BROP/BRPM)			
1	Inadequate Internal Organization in the BROP/BRPM	Intermediate	Open
2	Insufficient legal basis for 3 individuals in the BROP/BRPM	Intermediate	Partially closed
3	Insufficiently trained BRPM 3 staff	Intermediate	Closed
4	Inadequate premises to secure assets and data (BROP/BRPM)	Intermediate	Partially closed
5	Insufficient number of staff of the Internal Audit Department	Intermediate	Partially closed
DIRECTORATE FOR FINANCE AND CONTRACTING OF THE EU ASSISTANCE FOUND (CFCU)			
1	Understaffing	Intermediate	Partially closed
2	Lack of the recruitment plan for 2015 and weaknesses in WLA	Intermediate	Closed
3	Inadequate Substitution Plan	Intermediate	Open
4	Insufficient training for performance of audit of EU fund	Intermediate	Partially closed
5	Inadequate planning	Intermediate	Partially closed
6	Insufficient number of trainings for preparation and issuance of Statement of Assurance	Intermediate	Closed
7	Deficiency in the process of issuing a Statement of Assurance for 2014	Intermediate	Open(deadline 15 th January 2016)
8	Appointment of the Publicity Officer	Intermediate	Closed
NATIONAL FUND (NF)			
1	Written procedures - Manual of Procedures	Intermediate	Closed
2	Preparation of Statement of Assurance	Intermediate	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

Detailed description on principal findings and results of Follow-up activities is given below:

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 5: Details on Principal system findings and results of Follow-up activities

	Finding	Recommendation	Status on December 2015 (results of Follow-up)
MINISTRY OF LABOUR AND SOCIAL WELFARE (BROP/BRPM)			
1	<p>Inadequate Internal Organization in the BROP/BRPM</p> <p>The Rulebook on organization and systematization of the Ministry of Labour and Social Welfare from March 2013, in Directorate for Labour Market and Employment foresees 4 work posts for performing activities related to implementation of the OPHRD.</p> <p>However, it is determined that employees in the Directorate for Labour Market and Employment have legal authority for fulfilling functions related to the Priority/Measure 1 of the Operational Programme, <i>but they do not perform</i> those functions.</p> <p>All competences and activities related to Priority/Measure 1 are undertaken by the Department for programming and implementation of EU funds which at the same time covers function of BROP and BRPM responsible for priority/measure 1 and 4. This role of the Department for programming and implementation of EU funds is also presented in MoP V4 Chapter Internal Organization and HR-Annex 1 and 2.</p>	<p>Level of priority: Intermediate Implementation deadline: December, 2015 Date of the Report: May, 14th 2015</p> <p>We recommend to carry out assessment of the division of competences related to the implementation of priority/measure 1 from the Operating Programme and therefore to harmonise the work posts between the organizational units in the Rulebook on internal organisation and systematisation of the Ministry of Labour and Social Welfare.</p>	<p>Status: Not implemented New level of priority: Minor New implementation deadline: July 2016</p> <p>The Directorate for Labour Market and Employment did not have and will not have the role of the BRPM for priority/measure 1 and this description in their work posts was a technical error.</p> <p>BROP addressed the initiative for the correction of the technical error. We are convinced that this does not affect functioning of system, therefore the level of priority has been changed into Minor.</p> <p>E-2 Rulebook on organization and systematization of the Ministry of Labor and Social Welfare</p>
2	<p>Insufficient legal basis for 3 individuals in the BROP/BRPM</p> <p>According to the Rulebook on Internal Organization and Systematization of the MLSW 4 employees are foreseen in the Department for Programming and Implementing acting as BROP/BRPM. Those 4 work posts are fulfilled. Besides those employees, 3 more employees work in the BROP/BRPM:</p> <ul style="list-style-type: none"> Two employees are employed based on the Contract on the Performance of Temporary Activities; An employee is reassigned from the other organizational unit of the MLSW. <p>Reviewing documentation we learned that 2 employees were employed based on the Contract on the Performance of Temporary Activities according to which they are not responsible for performing activities</p>	<p>Level of priority: Intermediate Implementation deadline: September Date of the Report: May, 14th 2015</p> <p>We recommend to harmonize the number of work posts in the Rulebook on Internal Organization and Systematization with the needed number of employees in the BROP/BRPM based on the WLA.</p>	<p>Status: Partially implemented New level of priority: Minor New implementation deadline: May, 2016</p> <p>After the implemented procedure of employment in compliance with the Law on Civil Servants and State Employees, the status for two employees with a contract of employment for an indefinite period of time is solved. However, the procedure of formal reassignment of</p>

	<p>related to the IPA, but they have signed Job Descriptions according to the MoP and performed activities related to the IPA. Pursuant to the Law on Civil Servants and State Employees, these persons do not have the status of state employees.</p> <p>Also, reassignment procedures were not performed according to the Law on Civil Servants and State Employees for the employee reassigned from the other organizational unit of the MLSW. Therefore, this employee has formally no responsibility for activities related to the IPA.</p>		<p>one employee from another organisational unit has not been finished yet since the trial period is on-going. Complete implementation of this recommendation is expected in the first half of 2016.</p> <p>E-4 Employment contract on an indefinite period of time E-5 Decision on maternity leave</p>
3	<p>Insufficiently trained BRPM 3 staff</p> <p>According to the MoP all employees need to be encouraged to attend conferences, seminars and trainings that would enhance their professional skills.</p> <p>The national legislation does not provide a number of days per year to be dedicated to training, but in the case of IPA operations, the staff need at least 10 (ten) days per year, as the competences required are complex. Trainings shall be registered in the <i>Training Register (Annex 15 of the Manual of Procedures)</i>. In addition to the training register at the level of organisation, each employee may have an individual training register which shall include all training courses that the employee attended, and their relevance to skills enhancement. The records in the training register should be updated after each training.</p> <p>During our audit in the BRPM 3 we reviewed the Training Register per years and Training Register per employees. The Training Register is regularly updated after each training.</p> <p>Reviewing this documentation, two of five employees in the BRPM attended trainings during 2014, and only one employee attended at least 10 days trainings per year.</p> <p>Also during reviewing of the documentation and according to the risk management process under the scope of our audit, we determined that BRPM 3 staff did not attend enough trainings related to the risk management process.</p>	<p>Level of priority: Intermediate Implementation deadline: November, 2015 Date of the Report: May, 14th 2015</p> <p>All employees of the BRPM 3 need to improve their skills, so we recommend employees to attend trainings related to IPA, especially trainings related to their tasks and responsibilities.</p> <p>We also recommend organizing internal training within the Ministry, in order to adopt additional knowledge and enhance employees' awareness of the importance of risk management.</p>	<p>Status: Implemented Level of priority: n/a New implementation deadline: n/a</p> <p>By the insight into the register of trainings it is determined that employees BRPM3 participated in trainings and among other in training which refers to Risk Management.</p> <p>E-6 Training Registers of the staff.</p>

4	<p>Inadequate premises to secure assets and data (BROP/BRPM)</p> <p>Working space and adequate equipment are important conditions for undisturbed functioning of the staff, keep on data secured and safe documentation storage.</p> <p>The premise of the BROP/BRPM are currently inadequate to allow a proper working environment of staff, moreover, the premises are shared with other department. We also noticed the lack of equipment (scanners, printers, etc.) and lack of space for archiving documents.</p> <p>This premise does not ensure that assets and data are kept secure from interference or physical damage.</p>	<p>Level of priority: Intermediate Implementation deadline: September, 2015 Date of the Report: May, 14th 2015</p> <p>We recommend to provide adequate premises and equipment for the Department for Programming and implementation of EU funds in order to ensure the smooth functioning of this Department.</p>	<p>Status: Partially implemented New level of priority: Minor New implementation deadline: 1st quarter 2016</p> <p>The Division for Programming and Implementation of EU Funds-BROP/BRPM was transferred in June 2015 in new office premises. The equipment for the needs of this Division will be procured within the Measure 4.2. of the OPHRD. The launching of tendering process is planned for the I Q of 2016.</p> <p>E-7 Contract on renting the office space for the needs of Ministry of Labour and Social Welfare.</p>
5	<p>Insufficient number of staff of the Internal Audit Department</p> <p>According to the Law on Internal Financial Control in public sector the Internal Audit Department can not have less than 3 internal auditors with the Head of the Internal Audit Department.</p> <p>For the Internal Audit Department of the Ministry of Labor and Social Welfare the Rulebook of Internal organization and systematization foresees 3 internal auditors. However, only 2 internal auditors 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>Level of priority: Intermediate Implementation deadline: September, 2015 Date of the Report: May, 14th 2015</p> <p>In order to ensure effective functioning of the Internal Audit Department, our recommendation is to fulfil the vacancy of the head of the Internal Audit Department.</p>	<p>Status: Partly implemented New level of priority: Minor New implementation Deadline: Jun, 2016</p> <p>Senior internal auditor from the Internal Audit Department is deployed to a position of the head of the Department. Having in mind that his position is vacant now, filling of this vacancy of the Department will be followed in the following period.</p> <p>Evidence:</p> <p>E-9 The Decision on Employment for the Head of the Internal Audit Department</p>

DIRECTORATE FOR FINANCE AND CONTRACTING OF THE EU ASSISTANCE FOUND (CFCU)

1	<p>Understaffing</p> <p>On the proposal of the Ministry of Finance, the Government of Montenegro determined the Rulebook on Internal Organisation and Systematisation of the Ministry of Finance at the sessions from 13/06/2013 and amended version from 30/01/2014.</p> <p>Pursuant to the Rulebook on Internal Organisation and Systematisation of the Ministry of Finance, 21 job positions are envisaged in the Directorate for Finance and Contracting of the EU Assistance Funds-CFCU</p> <p>In the period of performing audit, the state of human resources in the Directorate is the following:</p> <ul style="list-style-type: none"> - Eleven (11) employees are assigned on the permanent basis and the director general is appointed – in total twelve (12) employees; - According to the Contract on Temporary and Occasional Services and Service Contract in compliance with the Labour Law and with the Law on Obligations five (5) persons are engaged; - Two (2) persons entered employment as trainees. <p>Having in mind the fact that according to the Rulebook, 21 job positions were envisaged in the Directorate and up to now 12 persons have been assigned and appointed with the status of civil servants in compliance with the Law on Civil Servants and State Employees, the conclusion is that there are 9 vacancies (5 people engaged by the contract do not have the status of civil servant and they are engaged on a fixed term while 2 persons entered employment for a traineeship or training).</p>	<p>Level of priority: Intermediate Implementation deadline: December 2015 Date of the Report: September, 8th 2015</p> <p>The procedure of filling vacancies should be conducted in compliance with the Law on Civil Servants and State Employees.</p>	<p>Status: In progress Level of priority: Intermediate New implementation Deadline: 1st Quarter 2016</p> <p>In compliance with the recommendation from the Final report by 20/10/2015 the employment of 4 persons was carried out in the Directorate in accordance with the Law on Civil Servants and State Employees. The procedure of implementation of employment according to the Announcement of Human Resources Management Agency from 03/10/2015 – Internal Announcement within the state authority for 5 job positions and the Announcement of HRMA from 17/10/2015–Public Announcement for two job positions is on-going. The end of procedures is expected in the first quarter of 2016. The fulfilment of recommendation will be followed through the following audit.</p> <p>E-1 Letter of CFCU no. 010-sl from 14/09/2015 addressed to the Secretary of the Ministry of Finance;</p> <p>E-2Internal announcement from 03/10/2015;</p> <p>E-3 Public announcement from 17/10/2015;</p> <p>E-4 Decision on appointment of 4 employees</p>
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2	<p>Lack of the Recruitment Plan for 2015 and weaknesses in WLA</p> <p>As stated in the MoP the purpose of the Work Load Analysis (hereinafter: WLA) is to provide an estimation of the human resources required by the IPA body in order to accomplish their tasks and functions related to EU assistance and IPA programme. The WLA is based on the Annual Work Plan, taking into account the organisational structure and the Job Descriptions. The WLA of IPA bodies shall be produced for a calendar year and updated at least every 12 months during the first 2 years, or more often on an ad-hoc basis in case of major changes in the organisation and its structure.</p> <p>CFCU has prepared WLA for 2015. However, the WLA lacks the overview referring to the number which indicates current employees, then envisaged number of employees and the difference which would be in compliance with Annex 2 Chapter Human Resources Management –MoP.</p> <p>The IPA body Recruitment Plan shall establish the actual status of vacancies, the number of employees required on a long-term basis for the period for which the plan is composed according to the WLA.</p> <p>During audit engagement it has been determined that the Recruitment Plan for 2015 in the CFCU has not been done.</p>	<p>Level of priority: Intermediate Implementation deadline: December 2015 Date of the Report: September, 8th 2015</p> <p>We recommend preparation WLA in accordance with the Annex 2 from the MoP. Also Recruitment Plan should be prepared in accordance with WLA.</p>	<p>Status: Implemented New level of priority: n/a New implementation Deadline: n/a</p> <p>Recruitment plan is done on the basis of WLA in which the current number of employees and the number of employees needed for implementation of described tasks are shown.</p> <p>E-5 Recruitment Plan for 2015; E-6 WLA for 2015.</p>
3	<p>Inadequate Substitution Plan</p> <p>The contingency planning to permit continuity of operations in the event of key staff replacement is of major importance to the IPA body. The need for such replacement could arise due to various circumstances including (but not limited to) resignation, illness, holidays, termination of employment, etc. In such cases it is imperative that the implementation of projects would not be seriously impacted and therefore the contingency plans must come into force.</p> <p>Substitution Policy is drawn up to assure an uninterrupted performance of the IPA body functions in total respect with the rules for segregation of duties.</p> <p>Plan for Substitution of Staff is verified and approved on 23/02/2015. However, Substitution Plan envisages persons engaged on temporary contracts and service contracts which are concluded for period of 3 and 4 months, as well as trainees whose contract expires in the current year. Apart from the fact of the temporary engagement (limited time period), these persons do not have rights and obligations in terms of carrying out tasks in compliance with the Law on Civil Servants and State Employees.</p>	<p>Level of priority: Intermediate Implementation deadline: 1st quarter of 2016 Date of the Report: September, 8th 2015</p> <p>For the upcoming period revise the Substitution Plan in which only employees with full competence, as well as right and obligation in terms of carrying out tasks should be taken into consideration.</p>	<p>Status: Not implemented Level of priority: Intermediate Implementation deadline: 1st Quarter 2016</p> <p>Recommendation implementation deadline has not expired yet. The recommendation will be implemented after the implementation of the procedure for employment of new employees, which is on-going. (see the finding 4.1.1)</p>

4	<p>Insufficient training for performance of audit of EU</p> <p>Internal Audit is performed in order to give objective professional opinion and advice on adequacy of the system of financial management and control with the aim of improving operation of auditee. Department of Internal Audit MoF is established according to The Law on the System of Internal Financial Control in Public Sector. In compliance with Rulebook on internal organisation and systematization of Ministry of Finance employment of seven internal auditors is envisaged and all work post are fulfilled.</p> <p>Work methodology for performing internal audit on public sector auditees which is also applied in EU Funds audit is prescribed by The Manual for Internal Audit. Audit of EU Funds is planned by Strategic Plan, while the audit of CFCU is planned by Annual Work Plan for 2015.</p> <p>Analysing collected data and information from the Department of Internal Audit, we came to conclusion that employees of this Department are not fully trained for performance of audit of EU funds and functioning of management and control system of funds. As a reason of insufficient training for fulfilment of previously indicated tasks, the lack of adequate number of practical trainings relating to audit of EU funds and functioning of management and control system of EU funds is evident. It is also determined that the Training Strategy is not adopted and that the annual training plan for 2015 is not prepared, which is prescribed by the Manual for Internal Audit.</p>	<p>Level of priority: Intermediate Implementation deadline: December 2015 Date of the Report: September, 8th 2015</p> <p>We recommend providing resources/funds, preparing adequate strategy and training plan and taking over necessary activities with the aim of providing quality, practical trainings for the purpose of increasing level of knowledge and skills necessary for performance of audit of EU funds and functioning of management and control system of EU funds</p>	<p>Status: Partly implemented New level of priority: Minor New implementation deadline: 1st quarter 2016</p> <p>Acting according to the recommendation, evidence that the training of employees of the Internal Audit Department of the Ministry of Finance is delivered with a view to raising the level of readiness for conducting the audit of EU funds. However, the Internal Audit Department has not made the Strategy of Trainings and Annual Plan of Trainings yet. Total implementation of this recommendation will be followed in the following period.</p> <p>E-9 Letter of CFCU from 17/09/2015. to Internal Audit Department; E-10 Attendance sheet, Audit of EU funds, from 09/09/2015.</p>
5	<p>Inadequate planning</p> <p>According to the procedures from MoP CFCU is responsible for planning the relevant co-financing contributions (both EU and national) and submission of the plans to the HOS and BRPM. Also CFCU is responsible for submission of Requests for allocation of budgetary funds to the Ministry of Finance, Budget Directorate;</p> <p>Analysing documentation which refer on CFCU Budget plan we concluded that CFCU, in compliance with The Decision on the manner of preparation and content of the program budget, prepared Budget plan for 2015. Also Disbursements for next two years are planned.</p> <p>CFCU submitted Requests for allocation of budgetary funds for three years period, harmonised with relevant procurement plan, to Directorate for Budget on 29 July 2014. Also The Table for preparation of programme budget is fulfilled and submitted to Directorate for Budget.</p>	<p>Level of priority: Intermediate Implementation deadline: Immediately Date of the Report: September, 8th 2015</p> <p>It is recommended strengthening of control system in all phases of budget planning in order to ensure that requested funds (both EU and national) are approved by annual Law on Budget.</p>	<p>Status: Partly Implemented Level of priority: Intermediate New implementation deadline: November 2016.</p> <p>CFCU submitted the request for funds which relate to the national and EU share to the Ministry of Finance – Service for material, financial and accountancy affairs according to the planned implementation of Priorities and Measures from the Operating Programme “Human Resources Development 2012-2013”.</p>

	<p>Comparing data from Requests for allocation of budgetary funds with data which refer on planned disbursement for all priorities and measures from OP, we concluded that national co-financing funds for Grants are not included in Requests for allocation of budgetary funds for three years period.</p> <p>According to Law on Budget for 2015, within spending unit MoF, on CFCU programme it has been planned only national co-financing funds. Having in mind that in Law on Budget for 2015 need to be included national and EU contribution, it can be concluded that during the process of budget planning for 2015 all controls from responsibilities of IB, HOS and NAO were not efficiently conducted.</p>		<p>In accordance with the Bill of Law on Budget for 2016, funds of national co-financing are envisaged for the planned implementation of services, procurement and grants in 2016.</p> <p>However, expenditure which is financed from EU donations has not been planned in the annual Law on Budget on the expenditure side of the budget units CFCU</p> <p>E-14 Letter of CFCU to the Ministry of Finance –Directorate for Budgetary funds -Request for allocation of budgetary funds</p> <p>E-15 Budget proposal for 2016</p>
6	<p>Insufficient number of trainings for preparation and issuance of Statement of Assurance</p> <p>In accordance with Regulation of Commission no.718/2007, which implements the Regulation of the Council of the EC no. 1085/2006 for establishment of the Instrument for Pre-Accession Assistance, pursuant to the Article 25(5) National Authorising Officer makes the annual declaration on management, which should have a form of Statement of Assurance which is submitted to the Commission by 28 February each year. As it is defined by procedures and determined by Implementing Agreement, the head of IB is obliged to submit to HOS the statement of assurance which confirms efficient functioning of the management and internal control system as well as legality and regularity which is conducted by IB relating to Operating Program. Having in mind the indicated, the issuance of the Statement of Assurance whose quality and accuracy firstly depend on quality data procession and all referent resources which are used in the process of preparation of the Statement of Assurance is of a great importance.</p> <p>However, the insight into training register of CFCU shows that there were no trainings which would achieve strengthening of capacities and acquainting employees with the importance of process of issuance of Statement of Assurance, except for the simulation of issuance of SoA which was initiated by National Fund in June 2014.</p>	<p>Level of priority: Intermediate Implementation deadline: December 2015 Date of the Report: September, 8th 2015</p> <p>Taking into consideration the importance of the Statement of Assurance based on the quality collected and processed data and facts which confirm efficient functioning of management and internal control system as well as legality and regularity which is conducted by IB relating to Operating Program, we recommend organisation and conduct of trainings in order to introduce employees to the importance of the process of issuance of Statement of Assurance and strengthening capacities in view of quality data processing important for preparation and issuance of SoA.</p>	<p>Status: Implemented New level of priority: n/a New implementation deadline: n/a</p> <p>The training was carried out with a view to upgrading level of knowledge of the Statement of Assurance issuance process on 12/10/2015</p> <p>E-16 Initiative of CFCU which refers to training implement. E-17 Agenda from 12/10/2015;</p>

7	<p>Deficiencies in the process of issuing a Statement of Assurance for 2014</p> <p>The Statement of Assurance shall provide confirmation of the effective functioning of the management and control system as well as the legality and regularity of all activities carried out by the IB in relation to IPA IV programme. If the confirmation is not available, the Head of the IB shall inform the HOS of the reasons and potential consequences as well as of actions being taken to remedy the situation.</p> <p>In accordance to the MoP, each Statement of Assurance will be supported by a Report in which the Head of IB will provide information on the activities/results/facts which have been implemented/ achieved with reference to resources which are used during preparation of Statement of Assurance.</p> <p>Check of documentation following Statement of Assurance which is submitted to HOS by the Head of IB for 2014 defines that Statement of Assurance was not supported by previously indicated Report.</p> <p>It is also determined that questionnaire on self-assessment of IPA body, which is constituent part of documentation supporting Statement of Assurance, is signed in the column "filled by employee" by a trainee who has no responsibility for possible omissions. Pursuant to the Article 118 of the Law on Civil Servants and State Employees "Trainee shall mean a person who enters for the first time employment in a state authority requiring certain qualifications for the purpose of being trained for autonomous work"</p>	<p>Level of priority: Intermediate Implementation deadline: 15th January 2016 Date of the Report: September, 8th 2015</p> <p>In the procedure of issuance of SoA for 2015, prepare report which will support SoA according to procedures from MoP. Furthermore, only employees who have legal authorisations and responsibilities for performing tasks should be involved in carrying out activities important for issuance of SoA, as well as for signing documentation following SoA</p>	<p>Status: Not Implemented Level of priority: Intermediate Implementation Deadline: 15th January 2016</p> <p>Recommendation implementation deadline has not expired yet. Recommendation implementation will be followed after the issuance of Statement of Assurance for 2015.</p>
8	<p>Appointment of the Publicity Officer</p> <p>According to the MoP At the level of BROP, BRPM, IB and NF, a person shall be appointed as Publicity Officer, who is responsible for all information and publicity tasks described in Section 3.2 and Section 3.3 of Chapter Publicity and Visibility and/or who is in charge of visibility requirements to be addressed by the respective organization.</p> <p>Responsibilities and detailed tasks of all employees are determined by Job Description. According to the Job Descriptions of the CFCU, a person who is responsible for activities in relation to publicity and visibility is employed in CFCU on a fixed term as a trainee for a period of 12 months. Since a trainee shall mean a person who enters for the first time employment in a state authority requiring certain qualification for the</p>	<p>Level of priority: Intermediate Implementation deadline: December 2015 Date of the Report: September, 8th 2015</p> <p>We recommend appointment of a person who is employed for indefinite period of time and with full competence in terms of carrying out delegated task as Publicity Officer</p>	<p>Status: Implemented New priority level: n/a New implementation Deadline: n/a</p> <p>E-20 Job description for Publicity Officer (Quality Assurance Specialist)</p> <p>Publicity officer is appointed. Person who was appointed as Publicity Officer is employed for indefinite period of time and he has</p>

	purpose of being trained for autonomous work, he can't have full responsibility and competence for the performance of delegated tasks independently.		full competence in terms of carrying out delegated task as Publicity Officer.
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NATIONAL FUND (NF)			
No	Finding	Recommendation	Status on December 2015 (results of Follow-up)
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>Level of priority: Intermediate Implementation deadline: December, 2015 Date of Final Report: 8th September 2015</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) has been adopted and entered into force on 1 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</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. In order to raise awareness within bodies of Operating Structure about</p>

	<p>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>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</p> <p>E-NF-3 Attendance sheet- Process of issuing SoA</p> <p>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:</p> <p>“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>Level of priority: Intermediate Implementation deadline: October, 2015 Date of Final Report: 8th September 2015</p> <p>We recommend to send the copies of SoAs – 2014 for Component III and Component IV to the CAO.</p> <p>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</p> <p>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</p>	<p>Level of priority: Intermediate Implementation deadline: December, 2015 Date of Final Report: 8th September 2015</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</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>

	cannot be ensured, to send minutes of the meeting, actualized Risk Registers and summary risk information to NAO during 2 weeks after RMP meeting. The RMC did not send above mentioned documents after held RMP meetings.	Registers and summary risk information to NAO during 2 weeks after every RMP meeting.	
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) 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>	<p>Level of priority: Intermediate Implementation deadline: November, 2016 Date of Final Report: 8th September 2015</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 management and usage of IPA funds which Montenegro has at its disposal.</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>
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</p>	<p>Level of priority: Intermediate Implementation deadline: November, 2016 Date of Final Report: 8th September 2015</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. We recommend that expenditure which is financed from EU donations should be planned in the annual</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>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>Law on Budget on the expenditure side of the budget units of DPW and CFCU (Implementing bodies for III and IV components).</p>	<p>E-NF-7- Letter for changing Chart of the accounts</p>
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- **Conclusion on the functioning of MCS within OPHRD for period ended on 30th September 2015**

Our conclusion on the functioning of the management and control system for the period ended on 30th 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 EMPL. List of audit reports submitted to the Commission - DG EMPL is given in Annex E to this Report. Also, during 2015 AA continuously monitored the implementation of OPHRD and collected the information on the changes in the system.

It is important to emphasize again that, since the Financing Agreement was signed on 05th December 2014 and European Commission carried out advance payment on 17th 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 OPHRD under the period of performing our audits.

AA has performed system audits in two OS Bodies in Component IV and in NF with the general assessment of MCS - works, but some improvements are needed. We summarized the findings of each body according to the audit area. We also stress the fact that there are no major findings.

On the basis of the performed follow-up activities we determined that improvements have been made. Results of follow-up activities related to the principal findings can be found in Section 5.3, Table 5.

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 01st October 2014 – 30th September 2015 functioned effectively. Consequently, for the period ended on 30th 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.

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

From the 03rd of November 2015, vacancy in the IPA Component IV is filled.

ANNEX A: ANNUAL WORK PLAN FROM 01st OCTOBER 2014 UNTIL 30th SEPTEMBER 2015

AAWP for the period from 01st October 2014 until 30th 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 01st October 2014 – 30th 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	Ministry of Labour and Social Welfare – HOS, BROP, BRPM	January-May 2015	System audit	
2.	Functioning of the MCS	Verify functioning of management and control system	CFCU – IB	May-September 2015	System audit	
COMMON BODY FOR ALL OP IN COMPONENT IV AND OTHER IPA COMPONENTS						
3.	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 01st OCTOBER UNTIL 30th SEPTEMBER 2015

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

Ministry of Labor and Social Welfare			
No.	Finding	Priority level	Reference to section of report
1.	Incomplete Work Load Analysis of the BRPM 3	Minor	4.1.1
2.	Incomplete description of work posts in the BRPM 3	Minor	4.1.2
3.	Inadequate Internal Organization in the BROP/BRPM	Intermediate	4.1.3
4.	Insufficient legal basis for 3 individuals in the BROP/BRPM	Intermediate	4.1.4
5.	Insufficiently trained BRPM 3 staff	Intermediate	4.1.5
6.	Inadequate premises to secure assets and data (BROP/BRPM)	Intermediate	4.1.6
7.	Inadequate description of the Recruitment procedures in the MoP (BROP/BRPM and BRPM 3)	Minor	4.1.7
8.	Incompliance of Appraisal Procedures (BROP/BRPM and BRPM3)	Minor	4.1.8
9.	Insufficient number of staff of the Internal Audit Department	Intermediate	4.2.1
10.	Inadequate Risk Register template (BROP/BRPM AND BRPM3)	Minor	4.3.1
11.	Appointment of the Risk Manager-BRPM3	Minor	4.3.2

Directorate for Finance and Contracting of the EU Assistance Funds (CFCU)			
No	Finding	Priority level	Reference to Section of Report
1	Understaffing	Intermediate	4.1.1
2	Lack of the recruitment plan for 2015 and	Intermediate	4.1.2

	weaknesses in WLA		
3	Inadequate Substitution Plan	Intermediate	4.1.3
4	Incompatibility of decisions on employment with the Rulebook on internal organization and systematization	Minor	4.1.4
5	Inadequate description of the Recruitment procedures in the MoP	Minor	4.1.5
6	Non-compliance of Appraisal Procedures	Minor	4.1.6
7	Insufficient training for performance of audit of EU fund	Intermediate	4.2.1
8	Inadequate planning	Intermediate	4.3.1
9	Insufficient number of trainings for preparation and issuance of Statement of Assurance	Intermediate	4.4.1
10	Deficiency in the process of issuing a Statement of Assurance for 2014	Intermediate	4.4.2
11	Inadequate Risk Register template	Minor	4.5.1
12	Appointment of the Publicity Officer	Intermediate	4.6.1
National Fund (NF)			
No	Finding	Priority level	Reference to Section of Report
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 01st OCTOBER 2014 UNTIL 30th SEPTEMBER 2015

Date of performance of the systems audit	Programme / system audited	Auditing entity	Expenditure declared in reference year ⁴	Total cumulative expenditure declared ⁵	Basis of selection of the programme ⁶
January-May 2015	OPHRD CCI 2007 ME 05I PO 001	Ministry of Labour and Social Welfare – HOS, BROP, BRPM	n/a	n/a	Risk Assessment
May-September 2015	OPHRD CCI 2007 ME 05I PO 001	Directorate for Finance and Contracting of the EU Assistance Fund (CFCU)	n/a	n/a	Risk Assessment
May-September 2015	OPHRD CCI 2007 ME 05I PO 001	National Fund (NF)	n/a	n/a	Risk Assessment

⁴ There is no expenditure declared in reference year

⁵ There is no expenditure declared in reference year

⁶ Within IPA Component IV there is one programme Operational Human Resources Development 2012-2013 Risk assessment was performed in purpose of determining the priorities in conducting system audits through bodies participating in the management and implementation of IPA Component IV.

ANNEX D TO POINT 6: SUMMARY LIST FOR DECLARED EXPENDITURE AND SAMPLE AUDITS CARRIED OUT FROM 25th APRIL UNTIL 30th SEPTEMBER 2014

Fund	Reference (CCI no)	OP	Expen diture declar ed in ref. year	Expenditure in ref year audited for the random sample		Amount and percentage (error rate) of irregular expenditure in random sample (3)		Other expenditure audited (4)	Amount of irregular expenditure in other expenditue sample	Total expenditure declared cumulatively	Total expenditure <i>audited</i> cumulatively as a percentage of total expenditure <i>declared</i> cumulatively	Materiality level (%)	Confidence level (%)
				1.	2.	Amount	%	1.					
	CCI 2007 ME 05I PO 001	HRD	/	/	/	/	/	/	/	/	/	/	/
	/	/	/	/	/	/	/	/	/	/	/	/	/
	/	/	/	/	/	/	/	/	/	/	/	/	/

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

System audits reports		Date of submission of the Report to EC-DG EMPL
1.	System Audit Report on the audit of Functioning of Management and Control System in Ministry of Labour and social Welfare (BROP/BRPM) OP “Human Resource Development” 2012-2013	16 th June 2015
2.	System Audit Report on the audit of Functioning of Management and Control System in Directorate for Finance and Contracting of the EU Assistance Fund (CFCU) OP “Human Resource Development” 2012-2013	2 nd October 2015
3.	System Audit Report on the audit of Functioning of Management and Control System in National Fund	2 nd October 2015

