



MONTENEGRO

AUDIT AUTHORITY

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ANNUAL AUDIT ACTIVITY REPORT

OF THE AUDIT AUTHORITY FOR

ANNUAL COUNTRY ACTION PROGRAMME FOR
THE MONTENEGRO FOR THE YEAR 2014 AND
ANNUAL COUNTRY ACTION PROGRAMME FOR
THE MONTENEGRO FOR THE YEAR 2016

FOR THE PERIOD FROM 01 JANUARY UNTIL
31 DECEMBER 2018

Podgorica, March 2019

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List of abbreviations

AA	Audit Authority of Montenegro
AAAR	Annual Audit Activity Report
AAO	Annual Audit Opinion
AMD	Annual Management Declaration
CAP 2014	Annual Country Action Programme for Montenegro for the year 2014
CAP 2016	Annual Country Action Programme for Montenegro for the year 2016
CFCU	Central Finance and Contracting Unit
DMS	Directorate for Management Structure
DPW	Directorate for Public Works
EC	European Commission
EU	European Union
EUD	Delegation of the European Union
IA	Implementing Agency
IPA II	Instrument for Pre-Accession Assistance II perspective
IPA	Instrument for Pre-Accession Assistance
LTEC	Long Term Employment Contract
MCSS	Management, Control and Supervision System
MEC	Ministry of Economy
MF	Ministry of Finance
MoP	Manual of Procedures
MSDT	Ministry of Sustainable Development and Tourism
MTMA	Ministry of Transport and Maritime Affairs
NAO SO	NAO Support Office
NAO	National Authorising Officer
NIPAC	National IPA Coordinator
OG MNE	Official Gazette of Montenegro
PIU	Project Implementation Units
TEC	Temporary Employment Contract
WLA	Work Load Analysis

1. INTRODUCTION

1.1 Details of the responsible audit authority and other bodies that have been involved in preparing the report

The Audit Authority of Montenegro, as an independent audit body, was established by the Law on Audit of EU Funds (OG 14/12,54/16, 37/17 and 70/17). The Audit Authority is responsible for audit of EU funds (IPA, Structural Funds after the accession of Montenegro to the European Union, and other EU funds). 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.

The Law on Audit of EU Funds prescribes that auditees shall be public institutions and organisations, authorities and organisations of local self-government units, natural and legal persons who receive, use and manage EU funds respectively.

The functions and responsibilities of the Audit Authority are set out in the Framework Agreement between Montenegro and the European Commission on the arrangements for implementation of Union financial assistance to Montenegro under the Instrument for Pre-accession Assistance (IPA II)- (OG MNE, No 5/2015) and in Commission Implementing Regulation (EU) No 447/2014 on the specific rules for implementing Regulation (EU) No 231/2014 of the European Parliament and of the Council establishing an Instrument for Pre-accession Assistance (IPA II).

The Audit Authority is responsible for verifying:

- the completeness, accuracy and veracity of the annual financial reports or statements and the underlying annual accounts;
- the efficient and effective functioning of the management, control and supervision systems;
- the legality and regularity of the underlying transactions.

The Audit Authority should submit an Annual Audit Activity Report (AAAR) and Annual Audit Opinion (AAO) following the model set out in Annexes D and E of the Framework Agreement.

This report has been prepared by the Audit Authority of Montenegro.

1.2 Reference period (i.e. the year) and the scope of the audits (including the expenditure declared to the Commission for the year concerned)

Pursuant to Article 3(f) of the Framework Agreement between Montenegro and the European Commission on the arrangements for implementation of Union financial assistance to Montenegro under the Instrument for Pre-accession Assistance (IPA II), reference period for this Annual Audit Activity Report is financial year and covers the period from on 1 January to 31 December 2018.

In 2018 the Audit Authority carried out system audit. In the period covered by this report, the AA was not in a position to perform audit of operations, because in the period from 1 January 2018 until 31 December 2018 there were no declared expenditures to EC.

In the period February - March 2019 the AA performed follow-up of the findings and recommendations given in the course of audit conducted in the period covered by this report as well as follow-up of the findings and recommendations given in the course of previous audits. Follow-up was performed as a separate activity before issuing the AAAR and the AAO.

1.3 Identification of the sector/policy area(s) covered by the report and of its/their operating structure and management structure

The report covers Annual Country Action Programme for Montenegro for the year 2014 (No C (2014) 9837) and Annual Country Action Programme for Montenegro for the year 2016 (No C (2016) 8226).

Within Annual Country Action Programme for Montenegro for the year 2014, 11 actions shall be implemented by indirect management which covers following policy areas: Democracy and Governance (5); Environment and Climate Action (1); Transport (2); Competitiveness and Innovation (3).

Financing Agreement for the Annual Country Action Programme for Montenegro (Objective 1 - part 1 and Objective 2- part 1) 2014/032-022 and 2014/032-803, for the year 2014 was signed on 10 December 2015.

The total estimated cost of Programme CAP 2014 is EUR 24,515,340.00 and the maximum Union contribution to this Programme is set at EUR 21,288,220.00.

By signing Addendum the Financing Agreement for the Annual Country Action Programme for Montenegro (Objective 1 - part 1 and Objective 2- part 1) 2014/032-022 and 2014/032-803, for the year 2014 on 30/07/2018, the budget for Action 12 "Rehabilitation of the railway section Kos-Trebešica" is increased by 1,046,068.26 (national co-financing). According to that, the total estimated cost of Programme CAP 2014 is EUR 25,561,408.26 and the maximum Union contribution to this Programme is set at EUR 21,288,220.00.

Within Annual Country Action Programme for Montenegro for the year 2016, 2 actions shall be implemented by indirect management which covers following policy areas: Environment and Climate Action (1) and Competitiveness and Innovation (1).

Financial Agreement for the Annual Country Action Programme for Montenegro for the year 2016 was signed on 22nd December 2017. The total estimated cost of Programme CAP 2016 is EUR 26,544,530 and the maximum Union contribution to this Programme is set at EUR 22,948,900.

Structures and bodies being part of the management and control system of this Programme are, as follows:

- 1) The National IPA Co-ordinator (NIPAC)
- 2) The National Authorising Officer (NAO)
- 3) The Management structure:
 - The National Fund
 - The NAO support office

4) The Operating Structure:

- The NIPAC office
- Implementing Agencies: Central Finance and Contracting Unit (CFCU) and Directorate for Public Works (DPW)
- PIUs of the line ministries: (MF, MSDT, MEC, MTMA for CAP 2014); (MSDT and MEC for CAP 2016)

1.4 Description of the steps taken to prepare the report and to draw the audit opinion

The AAAR was prepared as a result of audit activities carried out during the 2018. During 2018 the AA carried out system audit. During performance of system audit in 2018, Audit Authority carried out follow-up of findings and recommendations from audit performed in previous year. Results of follow-up are covered in the system audit report. In the period from February - March 2019 AA performed follow-up of the findings and recommendations given in the course of audit conducted in the period covered by this report, follow-up of the findings and recommendations given in the course of previous audits and audit of the annual financial reports for 2018.

With a view to drawing up an audit opinion, Audit Authority assessed results of audit activities from the performed audit of management, control and supervision system and the consistency of the management declaration with regard to performed audit work.

Based on the available information the Audit Authority prepares the Annual Activity Audit Report and the Annual Audit Opinion.

The Audit Authority submits Annual Audit Activity Report and Annual Audit Opinion to the European Commission and the Government of Montenegro with a copy to the NIPAC and the NAO by 15 March each year.

2. SUBSTANTIAL CHANGES IN MANAGEMENT AND CONTROL SYSTEM

AA regularly monitored and gathered information on changes in the Management, Control and Supervision System (MCSS) and we reported on significant changes in MCSS in our AAARs. In our last AAAR we reported about the significant changes in the Management, Control and Supervision System (MCSS) which occurred until the end of December 2017.

In this AAAR we described significant personal and organizational changes occurred in the period from 1st January until 31st December 2018.

2.1 Personal changes

- Government of Montenegro on its session held on 22nd February 2018 resigned Mr Aleksandar Andrija Pejović from his position as a NIPAC. At the 78th Government session held on May 24th 2018 Ms Ivana Glisovic, former Director General for European Funds in the former Ministry of European Affairs, was appointed new National IPA Coordinator (NIPAC). NAO has informed European Commission about this significant change by letter No 01-8997 from May 31st 2018.

- At the 74th Government session held on April 26th 2018 Ms Ivana Maksimović was appointed Director General of Directorate for Managing structure in Ministry of Finance.
- At the 83rd Government session held on June 28th 2018, termination of the mandate of Mr Bojan Paunović as a Director General of the CFCU was adopted and at the same session Ms Marija Vukčević was appointed to perform the role of the Acting Director General of the CFCU. NAO informed European Commission about those significant changes by letter No 01-10994 from July 2nd 2018.
- At 86th Governmental session held on 19th July 2018 Ms Ivana Vujošević was appointed a Deputy NIPAC within Cabinet of Prime Minister of Montenegro, Office for European Integration.
- At the session held on 20th September 2018, Government of Montenegro adopted the decision on resignation of Mr Almer Kalač as Director of Directorate for Public Works (Head of IB). Mr Rešad Nuhodžić was appointed Acting Director of Directorate for Public works.

About last two changes NAO informed EC by the same Letter No 01-15591/1 from 5th October 2018.

2.2. Organizational changes

- On the 81st Government session held on June 14th 2018 Government adopted Internal Rulebook on organisation and systematisation of Cabinet of the Prime minister of Montenegro. By this act, Government recognised referent IPA bodies, previously performing IPA duties within former Ministry of European Affairs which ceased to exist. Within Cabinet of the Prime minister of Montenegro, Office for European Integration has been officially set as the unit that will also perform activities related to IPA. (NAO's letter to EC, from July 2nd 2018 (No 01-10994/1)).

The changes that occurred in MCSS in 2018 do not have an impact on the audit work.

3. CHANGES TO THE AUDIT STRATEGY

Audit Strategy 2018 – 2020 for the Annual Country Action Programme for Montenegro for the year 2014, was prepared in November 2017. The Auditor General of Audit Authority approved it and sent it to the European Commission, with a copy to National Authorising Officer, on November 29th 2017.

The Financial Agreement for the Annual Country Action Programme for Montenegro for the year 2016 was signed on 22nd December 2017. Having in mind that management and control system established for CAP 2014 is the same for CAP 2016, Audit Authority updated Audit Strategy 2018 – 2020 for the Annual Country Action Programme for Montenegro for the year 2014 which covered both programs, in compliance with Clause 5 of FWA.

According to the Update Audit Strategy we carried out system audit.

4. SYSTEMS AUDITS

4.1 Details of the bodies that have carried out systems audits, including the audit authority itself

In accordance with the Update Audit Strategy 2018-2020 for the IPA II 2014-2020 for the Annual Country Action Programme for Montenegro for the year 2014(hereinafter: CAP 2014) and Annual Country Action Programme for Montenegro for the year 2016 (hereinafter: CAP 2016) approved by Auditor General and submitted to EC on 05 April 2018, the AA of Montenegro conducted an audit of the management, control and supervision system (hereinafter MCSS) established in the bodies of Management structure: National Fund/NAO support office and in the bodies of Operating structure: Implementing Agency: Central Finance and Contracting Unit (CFCU) and Project Implementation Unit of the line ministry: Ministry of Finance.

4.2 Summary table of the audits carried out

Based on results of risk assessment performed during preparation of the Update Audit Strategy 2018-2020 we decided that during 2018 bodies whose total risk score is over 40% will be audited. According to the above mentioned, audit included the following bodies: NAO/NAOSO, NFD, PIU-MF and CFCU with the audit objective to verify the effective and efficient functioning of the management, control and supervision system.

Based on risk assessment performed during preparation of the audit for the purpose of defining audit areas at the key requirement/process/function level (further: process level) this audit engagement encompassed the following audit areas:

- Annual Management Declaration – NF; IA (CFCU) and PIU (MF)
- Financial management – PIU (MF); IA (CFCU) and NF
- Accounting – IA (CFCU) and NF
- Contract procedures – PIU (MF) and IA (CFCU)
- Verifications by the NAO – NAO support office.

Additionally, the AA performed follow-up of the findings and recommendations that remained opened in the auditees that were covered with this system audit (NFD, NAOSO, CFCU, MF(PIU)). Results of performed follow-up are that 3 out of 11 findings are closed.

The following findings were closed:

- Finding related to the process Contract procedure, level of priority: Intermediate.
- Submission of progress reports, finding related to the process Financial Management, level of priority: Minor.
- Finding related to the process Risk management level of priority: Intermediate.

Results of follow-up are covered in the system audit report.

In the period from February – March 2019 AA carried out follow-up of the findings and recommendations given from the performed system audit in 2018, as well as follow-up of the findings and recommendations given in the course of previous audit. Follow-up was performed as a separate activity before issuing the AAAR and the Annual Audit Opinion (AAO).

Summary of the audit carried out is in the following table:

Audit period	Programme (CCI and title)	Audit Body	Audited Body(ies)	Date of the audit	Scope of the audit	Principal findings and conclusions	Problems of systemic character and measures taken	Estimated financial impact (if applicable)	State of follow-up (closed/or not)
01.01.2018-31.12.2018	Annual Country Action Programme for Montenegro for the year 2014 - C(2014) 9387 Annual Country Action Programme for Montenegro for the year 2016 - C(2016)	Audit Authority of Montenegro	NAO/DMS	July to half of November 2018	Annual Management Declaration	Annual Management Declaration When AMD is issued prepare separate Check lists as well as SAQs for each programme, as well as Action Plans if the results show the necessity. According to the submitted documentation, separated check lists were prepared for each CAP programme (CAP 2014, CAP 2016).		n/a	Closed
			IA (CFCU) and PIU (MF)						
			PIU (MF); IA (CFCU) and NF	"	Financial management			n/a	
			IA (CFCU) and NF	"	Accounting			n/a	
			PIU (MF) and IA (CFCU)	"	Contract procedures			n/a	
			NAO support office.	"	Verifications by the NAO			n/a	

4.3 Description of the basis for selection of the audits in the context of the audit strategy

During the strategic audit planning (Update Audit Strategy 2018-2020 for the IPA II 2014-2020 for the Annual Country Action Programme for Montenegro for the year 2014 and Annual Country Action Programme for Montenegro for the year 2016 April 2018) for the purpose of defining audit areas the Audit Authority performed risk assessment for each body of Annual Country Action Programme for Montenegro for the year 2014 and Annual Country Action Programme for Montenegro for the year 2016 at the key requirement/process/function level (further: process level). We identified and assessed issues and processes that are significant for the audit and that could be common for all or several bodies that are participating in management and implementation of programme.

Based on results of risk assessment performed during preparation of the Update Audit Strategy 2018-2020 we decided that during 2018 bodies whose total risk score is over 40% will be audited. According to the above mentioned, audit included the following bodies: NAO/NAOSO, NFD, PIU-MF and CFCU with the audit objective to verify the effective and efficient functioning of the management, control and supervision system.

For the purpose of defining audit areas the Audit Authority, performed during preparation of the audit, risk assessment for NAO/NAOSO, NFD, MF and CFCU at the key requirement/process/function level (further: process level). We identified and assessed issues and processes that are significant for the audit and that could be common for all or several bodies that are participating in management and implementation.

For the purpose of performing risk assessment, following steps were carried out:

- Identification of the level at which the risks are identified and assessed

Risk factors are determined at the following levels:

- operation programme (OP) level,
 - Programme/ structures and authorities level
 - process level.
- Identification of risk factors

Risk factors which were identified and taken into account during risk assessment at the process level of a particular body were as follows:

- Results of previous audits and realization of recommendations,
 - Staffing/ competences of staff,
 - Changes from the previous audits,
 - Status of implementation of the process.
- Assessment of risk factors

In order to distinguish between the factors with varying importance, we gave the weight to the specific risk factors and calculated the total score for each process in each body. First we identified horizontal processes in all bodies and we calculated the total score for each identified horizontal process at the level of individual body. Second, we identified specific

processes in each body and calculated the total score for those processes in each body. After that, we calculated the total score for each horizontal and specific process within OP.

- Ranking the process

First, we ranked all horizontal processes within OP according to the total score for each horizontal process. Second, we ranked specific processes in OP according to the total score for each specific process.

- Defining the audit priorities and approach

Based on risk assessment performed during preparation of the audit for the purpose of defining audit areas at the key requirement/process/function level (further: process level) this audit engagement encompassed the following audit areas:

- Annual Management Declaration – NF;IA (CFCU) and PIU (MF)
- Financial management – PIU (MF); IA (CFCU) and NF
- Accounting – IA (CFCU) and NF
- Contract procedures – PIU (MF) and IA (CFCU)
- Verifications by the NAO – NAO support office.

Audit areas (processes, functions) and appropriate key control elements which were subject of the audit are presented in the following table:

Scope of the audit		
Audit Area (e.g. process/sub-system)	Auditee	Internal control framework –related requirements
AMD	CFCU, NF,NAO support office, MF	1(c); (d); 3(c);
Financial management	MF, NF, CFCU,	3(a) (v)(vi)(vii)
Accounting	CFCU, NF	3(a)(ix);(x);
Contract procedures	MF, CFCU	5(a);
Verifications by the NAO	NAO support office	3 (a);

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

The outcome of the audit process is summarized in final system audit report that provides finding and recommendation which were identified during the audit process in body of Management Structure and Operating structure. Findings were categorized according to level of importance to major, intermediate and minor findings. During this audit engagement we identified in total 1 finding.

According to the level of importance, the finding is categorized as minor.

4.5 Description (where applicable) of specific deficiencies related to the management of financial instruments, detected during systems audits and of the follow-up given by the national authorities to remedy these shortcomings.

Not applicable.

4.6 Level of assurance obtained following the system audits and justification.

Considering the assessment of the management, control and supervision systems established for IPA II Annual Country Action Programme for Montenegro for the year 2014 and Annual Country Action Programme for Montenegro for the year 2016 we have reasonable grounds to state that the MCSS functions properly and in accordance with the requirements of the Framework Agreement. Our assessment of the MCSS for this Programme is **works, but some improvement(s) are needed.**

Based on the individual score for each audited system body, an overall conclusion on the MCSS of the Programmes is made. The assessment is presented in the table below:

Audit area	Works well. No or only minor improvement(s) are needed	Works, but some improvement(s) are needed	Works partially; substantial improvement(s) are needed	Essentially does not work
Annual Management Declaration – PIU (MF); IA (CFCU) and NFD/NAOSO	X			
Financial management – PIU (MF); IA (CFCU) and NFD		X		
Accounting – IA (CFCU) and NFD	X			
Contract procedures – PIU (MF) and IA (CFCU)	X			
Verifications by the NAO/NAOSO	X			

5. AUDITS OF SAMPLES OF TRANSACTIONS

The AA was not in a position to perform audit of operations, because in the period from 1 January 2018 until 31 December 2018 there were no declared expenditures to EC.

6. AUDITS OF THE ANNUAL FINANCIAL REPORTS OR STATEMENTS/ANNUAL ACCOUNTS

As in 2018 there was no declared expenditure for CAP 2014, we were limited in audit of accounts and focused only on verification whether all amounts (outflows from IPA accounts) were supported by basic accounting records kept by relevant bodies (CFCU, DPW I NF).

Having in mind that Montenegro received advance payment for the Programme CAP 2014 in the amount of 8.631.998,96€ our audit was limited, i.e. focused only on the volume of Union funds on the MF – NF CAP 2014 Account and related procedures.

In line with above mentioned, Audit Authority has performed reconciliation of the balance of the CAP 2014 Euro Account declared in the Annual financial report with the bank statement of the CAP Euro account and has verified that amount stated in the Annual financial report corresponds to the amount on the bank statement. We have identified that advance payment is recorded in accounting books.

It should be noted that for CAP 2016 there were no activities related to payment.

7. FOLLOW-UP OF PREVIOUS YEARS' AUDIT ACTIVITY

7.1 Information on the follow-up of outstanding audit recommendations and on the follow-up of results of systems audits and audits of transactions/operations (including the audits done in regard to the complementary sample) from earlier years.

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

During system audit in 2018, the follow-up of findings and recommendations from previous audit is regularly performed, which is then a constituent part of system audit report. Therefore, the follow up as a part of system audit in all bodies was performed regarding the findings and recommendations given in system audit report conducted in these bodies during 2017. After receiving the responses and the documentation on the fulfilment of recommendations from all bodies, we conducted interviews with the employees responsible for the management and implementation of the operational programme in bodies in which the interview was needed. After analyses and reviewing the submitted documentation, we assessed the status of the individual recommendation with the respective explanation.

The AA performed follow-up as a separate activity for the purpose of issuing the AAAR and the AAO for 2018.

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

- On 10th February 2019 the AA sent to NAO/DMS-NF Table with the summary of findings and recommendations from audits on Functioning of Management and Control and Supervision System for Annual Country Action Programme for Montenegro for 2014 from 2017 and on Functioning of Management and Control and Supervision System for Annual Country Action Programme for Montenegro for 2014 and Annual Country Action Programme for Montenegro for 2016 from 2018.

We informed them that we needed the follow-up for the preparation of the AAAR, which should be submitted to the EC, Government of Montenegro with a copy to the NIPAC and NAO by the 15th March 2019. Therefore, we requested from NAO/NF to include into the Table their Management response on the status of the individual recommendation with the appropriate explanation. We also informed them that they should prepare the evidence on the fulfilment of the individual recommendation which will be provided to us.

- On 22nd February 2019 we received the information we requested from NAO/NF.
- After the analysis of the received responses, documentation collected, we assessed the status of the individual recommendation with the respective explanation.

7.2 Subsequent events affecting the previous opinion and the previous annual audit activity report under Article 12(3) of Commission Implementing Regulation (EU) No 447/2014

As described in the point 7.1 the AA performed follow up activities as a separate activity for the purpose of issuing the AAAR and the AAO for 2018.

Further below we outline the description of the most important findings identified and conclusions reached through audits, recommendations provided for correcting the findings as well as information on the measures undertaken for the purpose of resolving the findings with regards to the audited processes and individual bodies and authorities within the system.

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

- **Lack of staff, recruitment and retention policy**

Level of priority: Intermediate

Body/-ies concerned by the finding: NFD, NAOSO, CFCU, MF(PIU)

During the audit we determined, based on the internal acts on systematisation and organisation of job positions and WLA that in all bodies of managing and operating structure, dealing with OP - Annual Country Action Programme for Montenegro for the year 2014, the number of permanently employed executors is insufficient. We also noted difficulties in retaining staff who during the work in bodies acquired appropriate knowledge and experience. Envisaged Work post related to IPA jobs by Rulebook, result of WLA/2017 and number of the currently employed on the date of the audit) are given in the table below:

Auditee	Envisaged Work post related to IPA jobs by Rulebook	Result of WLA/2017	Currently employed
NF/NAO SO	8 - including NAO	10	7 (LTEC)
NIPAC Office	11 - Including NIPAC	9 ¹	7 (6 – LTEC, 1-TEC)
CFCU	21 - Including Head of IA	37	19 (18-LTEC; 1-TEC)
DPW	30 - Including Director (Head of IA)	27	22 (21-LTEC; 1-TEC)

¹The current WLA does not show the result of WLA for Head of NIPAC Office and does not take into consideration NIPAC.

MF	4 - including SPO	4	3(LTEC) ²
MSDT	8 - including SPO	8	6 (5-LTEC;1-TEC)
MTMA	5 - Including SPO	7	3 (LTEC)
MEC	5 - including SPO	5	5(3-LTEC; 2-TEC)

During the audit we noticed that there have been changes on key positions in IPA bodies. Apart from the above stated, we determined a significant employees' turnover during 2016 and 2017 in all IPA bodies, dealing with CAP 2014, which ultimately leads to the fact that particular IPA bodies function based on substitution plans while at some of them, because of the insufficient number of staff it is impossible to apply substitution plan in order to respect segregation of duty.

Our recommendation was to take necessary measures and accelerating activities with a view to recruiting lacking number of employees which would further influence better and more efficient management and use of IPA funds. In order to prevent outflow of the key employees and problems created by their leave from IPA bodies, it is necessary to develop factually established policy of staff retention. Such policy would improve systems of promotion, award, professional training as well as other aspects of work. Therefore, we recommend necessity of additional efforts in order to establish policy of staff retention which can respond to the expected scope of work and fluctuation of employees.

According the information and documentation provided we determined that number of employees involved with Country Action Programmes continues to increase in most of the bodies concerned. Decision on top-up of salaries for IPA is formally approved in December 2018. Significant efforts are evident for all our recommendations regarding the HR policy. Finding remains open.

- **IT Policy - Backup of data**

Level of Priority: Intermediate

Body/-ies concerned by the finding: All IPA bodies

On the basis of performed on-the-spot checks and conducted interviews, we have found that archiving and backup of data is not performed in accordance with prescribed procedures. There is no properly defined back up storage. So, there is a risk of loss of data in case of error in information systems in which information is destroyed by failures or negligence in storage, transmission, or processing. To mitigate the risk of losing data, the staff from IPA bodies use external hard disks and USB disks for archiving data from their computers. They perform this periodically. Previously mentioned external hard disks are stored in the premises of each IPA body. However, archiving data in this way is not secure enough and is not in accordance with prescribed procedures for back up and archiving data which are described in MoP, chapter IT policy.

We recommended providing adequate archiving and back-up of data according to the procedures described in MoP Chapter IT policy in order to prevent data loss or ensure restoring of lost data.

²2 of 3 employees who are employed in the Department for European Integration-PIU do not performed their work in the PIU, since they are moved in the other departments. Additionally, procedures for movement are not performed, which means that they are officially employed in the Department for European Integration-PIU.

Action Plan ISO 27002 which contains integrated measures related to adequate information security asset management, information security awareness and trainings in this respect as well as business continuity management and back-up, is in final stage of aligning, before Government adoption.

*Significant efforts in order to provide above mentioned are evident. Besides that we consider this **finding remains open**, since the AP has not been adopted yet.*

- **Contingency plan developed**

Level of Priority: Intermediate

Body/-ies concerned by the finding: All IPA bodies

According to the Article 34 of the Government Decree for Information security (OG MNE No. 58/10; 55/15), business continuity plan should be developed and approved.

All bodies Operating Structure and Management structure of IPA II do not have contingency plan developed. There is a risk for continuity of operations concerning loss of data, absence of individuals, and some other unpredictable situations.

Our recommendation was to develop the contingency plan with clear responsibilities and procedures is necessary.

*Business contingency plan will be part of the Action Plan, which is not adopted yet. **Finding remains open.***

- **Internal audit capacities**

Level of priority: Intermediate

Body/-ies concerned by the finding: MSDT, MTMA, MEC, MF, CFCU, NF

During audit we identified that there is lack of capacities within IADs in all IPA bodies and this fact may have an impact on the quantity and/or quality of audits that are envisaged in annual audit plans. There is a risk that some of the systems, processes or procedures with high impact on overall system will not be subject of the audit and that managers would not have additional assurance about functioning of their systems nor independent review on effectiveness and efficiency of the system.

Recommendation was to increase capacities of internal audit with the view to increasing coverage of audit areas, which will provide management with additional assurance about functioning of the IPA MCSS.

*Even the progress in fulfilment of the recommendation is made, strengthening of the IAUs capacity is further necessary. We consider this **finding open**.*

- **Written Procedures related to chapter Financial management**

Level of priority: Intermediate

Body/-ies concerned by the finding: NF/IAs/PIUs

During audit we identified that MOP chapter Financial management with annexes has some deficiencies:

The new information system developed within MCS which includes procedures for financial management and accounting are not aligned with MOP chapter financial management which is in usage during audit.

According to the MOP, for the purpose of monthly reconciliation (page 6 of MOP of IA, paragraph note) "State Treasury Directorate prepares and submits to the IA filtered report related to the transactions i.e. payments of the IA during the day" what is not in line with the Directions on State Treasury Operations (OG MN No. 20/14).

Our recommendation was to align procedures with new information system and relevant regulation is necessary.

*The new version 2.0 MoP will be in line with the new one information system that is in practice for IPA I and IPA II (SAP system) from 01.01.2017. Also, the MOP audit was initiated in the part that refers to "the State Treasury Directorate prepares and submits to the filtered IA report relating to transactions, i.e. payments of the IA during the day ". In the new version of the manual, this section will be removed. The **finding remains open**, until the adoption of the new version 2.0 of MoP.*

- **Reports on implementation**

Level of priority: Intermediate

Body/-ies concerned by the finding: NIPAC, Head of NIPAC Office, SPOs

During the audit performed and based on insight in submitted documentation, we determined that procedures in respect to preparation of Annual Implementation Report for 2016 have not been fully implemented and respected.

Namely:

Annual Implementation Report for 2016 has been prepared and submitted to the European Commission in prescribed deadline (by 15th February 2017). However, Annual Implementation Report for 2016 has not been submitted for the reviewing and examination to the Sectoral Monitoring Committee and IPA Monitoring Committee by NIPAC Office;

Annual Implementation Reports for 2016 has not been prepared based on all information, which should be submitted by SPOs/PIUs (Quarterly and Semi-Annual Monitoring Reports have not been prepared).

During 2016 Semi-Annual Implementation Reports was not prepared by NIPAC Office;

In addition to the above, it is evident that procedures in respect to quality information checks and coordination of the reporting requirements have not been implemented. Namely, Quarterly and Semi-Annual monitoring Reports Checklists have not been prepared and signed and Time-Schedule, Guidelines and Instructions have not been issued and submitted to the SPOs/PIUs by NIPAC Office.

We recommended respecting procedures in relation to the preparation and submission Annual Implementation reports, as well as improving communication between NIPAC Office and PIUs.

*The NIPAC office has initiated the changes of the MoP Chapter "Programme/Action Monitoring" (draft version 2.0). The Annual Implementation Report for 2017 has been prepared in prescribed deadlines, by all relevant bodies which started with implementation of contracts during that year. We consider this **finding remains open**.*

- **Organising of Monthly Meetings with SPOs/PIUs**

Level of priority: Intermediate

Body/-ies concerned by the finding: NIPAC Office

According to the Article 9 of the Decree on organisation of the indirect management for implementation of Union financial assistance under Instrument for pre-accession assistance NIPAC Office organise monitoring meetings with the PIUs to discuss the actual progress of actions implementation against planned and monitoring visits.

MoP Chapter Programme/Action Monitoring in details prescribes procedures related to NIPAC Office responsibilities in order to organising monthly meetings with the SPOs/PIUs.

During the audit performed and based on insight in submitted documentation, we determined that monthly meetings have not been organised by NIPAC Office. Meetings may cause deficiencies and non-proper flow of information between relevant entities and may cause delays in identification of potential risks and problems that may occur. All relevant information must be distributed to all interested parties in order to ensure efficient and effective system functioning.

We recommended that Head of NIPAC Office organise regularly monthly meetings with SPOs/PIUs.

The NIPAC Office has launched an initiative for changing of the MoP Chapter Programme/Action Monitoring. The new version of the MoP (version: 2.0) is in the adoption process. The finding remains open.

8. OTHER INFORMATION

Not applicable.

9. OVERALL LEVEL OF ASSURANCE

The Audit Authority performed system audit in 2018. The Audit Authority did not perform audit of operations in the reference period since no expenditure were declared to the European Commission in the financial year 2018.

Regarding the abovementioned, the AA does not have all necessary elements to express overall assurance on the proper functioning of the management and control system.

10. TABLE FOR DECLARED EXPENDITURE AND SAMPLE AUDITS

Not applicable.

[illegible]