



**MONTENEGRO
AUDIT AUTHORITY**

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ANNUAL AUDIT ACTIVITY REPORT
OF THE AUDIT AUTHORITY FOR
IPA II 2014-2020 CROSS-BORDER COOPERATION PROGRAMME
“MONTENEGRO – KOSOVO”
FOR THE PERIOD
1st JANUARY 2018 – 31st DECEMBER 2018

Podgorica, March 2019

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List of abbreviation

AA	Audit Authority of Montenegro
AAAR	Annual Audit Activity Report
AAO	Annual Audit Opinion
AMD	Annual Management Declaration
AMG	Annual Management Guarantee
AWP	Annual Work Plan
CA	Contracting Authority
CB	Control Body
CBC	Cross-border cooperation
CFCU	Central Finance and Contracting Unit
DMS	Directorate for Management Structure
EC	European Commission
EIO	European Integration Office
EU	European Union
EUD	Delegation of the European Union
GoA	Group of Auditors
HOS	Head of Operating Structure
IA	Implementing Agency
ICF	Internal Control Framework
IPA II	Instrument for Pre-Accession Assistance II perspective
ISA	International Standards on Auditing
JTS	Joint Technical Secretariat
LTEC	Long Term Employment Contract
MCSS	Management, Control and Supervision System
MF	Ministry of Finance
MLGA	Ministry of Local Government Administration
MoP	Manual of Procedures
MS	Management Structure
NAO	National Authorising Officer
NAO SO	NAO Support Office
NFD	National Fund Division
NIPAC	National IPA Coordinator
OG MNE	Official Gazette of Montenegro
OS	Operating Structure
OTSC	On-the-spot check
PLCP	Programme level control procedures
TEC	Temporary Employment Contract
TNAQ	Training needs analysis questionnaire
TNSA	Training needs self-assessment
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 European Union funds ("*Official Gazette of Montenegro*" N° 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 the Article 3 of Law on Audit of EU funds, the Audit Authority 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 are 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), ("*Official Gazette of Montenegro*", N° 5/2015) and in the Commission Implementing Regulation (EU) N° 447/2014 on the specific rules for implementing Regulation (EU) N° 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 of Montenegro is responsible for the performance of audit tasks in respect of the IPA II 2014-2020 Cross-Border Cooperation Programme "Montenegro-Kosovo" (C (2014) 9307). It has been assisted by the Group of Auditors (GoA) composed of representatives by the Audit Authority of Montenegro and Central Harmonization Unit for Internal Audit (CHU-IA) within Ministry of Finance of Kosovo.

The Audit Authority is obliged to draw up Annual Audit Activity Report (AAAR) and Annual Audit Opinion (AAO) following the model set out in Annexes D and E of the Framework Agreement for IPA II.

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 1st January to 31st December 2018.

In the period July–December 2018 Audit Authority performed system audit of functioning of Management, Control and Supervision System established for implementation of IPA II 2014-2020 CBC Programme "Montenegro-Kosovo". Also, the follow up of the findings and recommendations given in the course of previous audit was included in the system audit engagement.

Based on level of implementation of IPA II 2014-2020 CBC Programme "Montenegro-Kosovo", as well as in accordance with adopted Audit Strategy for period 2018-2020 and results of performed risk assessment, the following bodies being part of the management, control and supervision system of this Programme were covered by the system audit:

1. The National Authorizing Officer and Management Structure composed of National Fund and Support Office for the NAO;
2. Contracting Authority (CA);
3. Joint Technical Secretariat (JTS);
4. HOS in Kosovo (KSV HOS);
5. Cross-border Cooperation Body in Kosovo (KSV CBC Body);
6. Control Body in Kosovo (KSV CB).

According to Audit Strategy and risk assessment the key requirements which were under the scope of audit are as follow:

- **National Fund:** Control Environment, Risk Management, Control Activities
- **NAO Support Office:** Control Environment, Risk Management, Control Activities, Monitoring of Internal Control Framework
- **CA/CFCU:** Control Environment, Risk Management, Control Activities, Monitoring of Internal Control Framework
- **JTS:** Control Environment, Risk Management, Control Activities
- **Kosovo HOS:** Control Environment, Risk Management, Control Activities, Information and communication, Monitoring of Internal Control Framework
- **Kosovo CBC Body:** Control Environment, Risk Management, Control Activities, Information and communication, Monitoring of Internal Control Framework
- **Control Body:** Control Environment, Risk Management, Control Activities, Information and communication, Monitoring of Internal Control Framework

According to Audit Strategy the key functions/processes within each body were defined during individual audit engagement planning on the basis of risk assessment. The following audit areas/processes were within the scope of the audit:

- Internal Organization and Human resources: NF, NAOSO, CFCU, JTS, KSV HOS, KSV CBC Body, KSV Control Body
- Internal control: KSV HOS, KSV Control Body
- Irregularities: KSV HOS, KSV Control Body
- IT System: KSV HOS, KSV Control Body
- Internal audit: KSV HOS, KSV Control Body
- Risk Management: KSV Control Body
- Communication & Reporting: KSV Control Body
- Administrative issue: KSV Control Body
- Publicity & Visibility: KSV Control Body
- Financial Management: NF, CFCU
- Accounting: NF, CFCU
- Verification by NAO: NAO SO
- Contract procedures: CFCU, JTS
- Contract implementation and OTSC: CFCU, JTS

Additionally, organizational and personal changes in MCS which occurred after last audit engagement performed during 2017 were covered by system audit through the auditing of Process of planning, assessment and approval of changes in MCS in all IPA Bodies in Montenegro and Kosovo.

During the February 2019 the Audit Authority performed follow-up of the findings and

recommendations given in the Final reports of performed system audit in 2017 and 2018. Follow-up was performed as separate activity before issuing the AAAR and the AAO.

Bearing in mind that no expenditure were declared during the year 2018, the Audit Authority has not been in position to perform audit of transactions/operations regarding the financial year 2018.

At the end of February 2019 Audit Authority performed audit of the annual financial reports for the year 2018. Audit was limited due to the fact that there were no expenditures declared during 2018.

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

The Annual Audit Activity Report covers the Cross-Border Cooperation Action Programme "Montenegro-Kosovo" for the year 2014 (2014/037-592) and the Cross-Border Cooperation Action Programme "Montenegro-Kosovo" for the years 2015-2017 (2015/038-161, 2016/038-182 and 2017/038-183) which provide assistance for cross-border cooperation in the thematic area spelled out in the IPA II 2014-2020 CBC Programme "Montenegro – Kosovo" (C(2014) 9307).

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

- National IPA Coordinators of both countries;
- The National Authorising Officer of Montenegro;
- The Management Structure of Montenegro (National Fund and NAO Support Office);
- The Operating Structure (OS) of Montenegro composed of: Head of the Operating Structure (Montenegrin HOS), Cross-border Cooperation Body (Montenegrin CBC Body) and Contracting Authority (CA/CFCU). The first two shall be located in the Office for European Integration within the Cabinet of Prime Minister of Montenegro and the Contracting Authority in the Montenegrin Ministry of Finance - Central Finance and Contracting Unit (CFCU);
- the Operating Structure (OS) of Kosovo composed of: Head of the Operating Structure (HOS) and the Cross-border Cooperation Body (CBC Body) which shall be located in the Ministry of Local Government Administration;
- Control Body (KOS CB) placed in Ministry of Local Government Administration.

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

To prepare the Annual Audit Activity Report, the Audit Authority processes, summarises and assesses the findings and recommendations included in the reports on performed audits and carries out a follow-up to assess the time proportional implementation of audit recommendations.

The Annual Audit Activity Report sets out, inter alia, any deficiencies found in the management, control and supervision systems and any corrective measures taken or planned by the NAO/NAO Support Office, National Fund and/or the operating structures concerned, and details of any substantial changes in the management and control systems.

With a view to drawing up an audit opinion, Audit Authority assessed results of audit activities from the audits of management, control and supervision system performed during 2018, audit of annual financial reports for 2018 and assessed the consistency of the management declaration with regard to performed audit work.

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

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

2. SUBSTANTIAL CHANGES IN MANAGEMENT AND CONTROL SYSTEMS

During 2018, the NAO regularly informed the European Commission and Audit Authority about substantial and planned changes in the system.

2.1 Changes in the MCS since last Annual Audit Activity Report in respect to Montenegro

- **Director General of the Directorate for Management Structure - Deputy NAO**

By the Letter No 01-21222/1 from 1st December 2017 the NAO informed EC and Audit Authority that activities of General Director of the Directorate for Management Structure (Deputy NAO) has been performed by Ms Ivana Maksimovic. Ms Maksimovic is appointed by the Government of Montenegro on 16th November 2017 as Acting General Director of the Directorate for Management Structure and by the Decision of the Minister of Finance from 16th November 2017 as Deputy NAO. On the Government session held on 26th April 2018, Ms Maksimović is appointed as General Director of the Directorate for Management Structure

- **Organisational changes in Operating structure**

By Regulation Amending the Regulation on Public Administration Organisation and Operation (OG 28/18 from 27th April 2018) Ministry for European Integration has officially stopped working. By Regulation on amending the Regulation on the Government of Montenegro (OG 28/18 from 27th April 2018) activities related to European integration has been transferred under the responsibility of the Government of Montenegro. On the session held on 14th June 2018, Government adopted Internal Rulebook on organisation and systematisation of the Cabinet of Prime minister of Montenegro. By this act NIPAC Office, HOS Office and CBC Body have been established as separate units of European Integration Office within Prime Minister's Office.

Mr Nemanja Katnić, in his capacity of the NAO and State Secretary in the Ministry of Finance informed European Commission and Audit Authority on this functional change on 2nd July 2018. (letter No: 01-10994/1).

- **NIPAC**

On the session held on 22nd February 2018, the Government of Montenegro issued consent to the resignation of the Minister of European Affairs, Mr Aleksandar Andrija Pejović who was also nominated to perform function of NIPAC.

On the session held on 24th May 2018, the Government of Montenegro adopted Decision on appointment of the new Deputy Chief Negotiator and National IPA Coordinator Mrs Ivana Glišević Đurović in the Office of the Prime Minister of Montenegro, European Integration Office.

NAO informed European Commission and Audit Authority on this functional change on 31st May 2018. (Letter No: 01-8997/1).

- **Deputy NIPAC**

On the session held on 19th July 2018, Government of Montenegro appointed MS Ivana Vujošević for Adviser of The Chief Negotiator on the accession of Montenegro to the European Union – Deputy NIPAC.

NAO informed European Commission and Audit Authority on this functional change on 5th October 2018. (Letter No: 01-15591/1).

- **Head of Directorate for Finance and Contracting of the EU Assistance Funds – CFCU**

On the session held on 28th June 2018, the Government of Montenegro adopted Decision on appointment of the new General Director of the CFCU Mrs Marija Vukčević who replaced Mr Bojan Paunovic.

NAO informed European Commission and Audit Authority on this functional change on 2nd July 2018. (Letter No: 01-10994/1).

- **Head of Operating Structure**

On the session held on 4th October 2018, the Government of Montenegro appointed Mr Vučić Četković for the Advisor to Deputy Chief Negotiator within European Integration Office. By the letter No. 01-004-1023 from 10th October 2018 NAO was informed by NIPAC that Mr Četković will also perform the function of Head of Operating Structure for the CBC Programmes.

NAO informed European Commission on this change on 14th December 2018. (Letter No. 01-20364/1)

However, during the system audit Audit Authority determined that despite the fact that Mr Četković has been officially appointed as the Advisor to the Deputy Chief Negotiator his appointment as HOS has not been officially issued. During the system audit, finding related to this deficiency was issued.

2.2 Changes in the MCS since last Annual Audit Activity Report in respect to Kosovo

During 2018, the following change occurred in the Kosovo Operating structure:

- **NIPAC**

By Decision No. 18/64 from 11th September 2018 the Government of Kosovo appointed Mr Kushtrim Cukaj for General Secretary in Ministry of Foreign Affairs who will also perform the function of NIPAC.

Bearing in mind the frequency of changes, especially in the key positions as well as organizational changes in Operating structure which occurred after last audit engagement performed during 2017, respecting procedures related to changes was assessed during the system audit performed in 2018 through the auditing of Process of planning, assessment and approval of changes in MCS in all IPA Bodies in Montenegro and Kosovo.

During the audit engagement we determined that prescribed procedures were respected. NAO assessed each change as minor or substantial and informed EC and Audit Authority about significant changes in MCS. Also some improvements in Programme level control procedures in respect to announcement and reporting of changes in the system have been made.

3. CHANGES TO THE AUDIT STRATEGY

According to the Article 12 of Commission Implementing Regulation N° 447/2014 the Audit Authority shall carry out audit in accordance with Audit Strategy prepared on a tri-annual basis.

The Audit Strategy for IPA II 2014-2020 CBC Programme "Montenegro – Kosovo" was prepared and submitted to the European Commission with a copy to the NAO in November 2017. The Audit Strategy was prepared on a tri-annual basis for period 2018-2020 following the model in Annex G of Montenegrin Framework Agreement and approved by Head of Audit Authority after having obtained the opinion of GoA members.

The Audit Strategy has not been changed in the reference period to which the Annual control report relates.

4. SYSTEMS AUDITS

4.1. Details of the bodies that have carried out system audit

The audit body that has carried out system audit is Audit Authority of Montenegro. The Audit Authority of Montenegro, as an independent audit body, was established by the Law on Audit of European Union funds ("Official Gazette of Montenegro" N° 14/12, 54/16, 37/17 and 70/17). Audit Authority of Montenegro is responsible for carrying out the function of the Audit Authority for IPA II 2014-2020 CBC Programme "Montenegro - Kosovo", in line with the functions and responsibilities set out in Clause 5 of Annex A to the Framework Agreement.

Since the Audit Authority does not have the authorisation to directly carry out its functions in the whole territory covered by CBC Programme "Montenegro – Kosovo", it is assisted by Group of auditors comprising a representative of Audit Authority of Montenegro and the Central Harmonization Unit for Internal Audit (CHU-IA) within Ministry of Finance of Kosovo.

4.2 Summary table of the audits carried out, with the indication of the authorities/bodies audited, the assessment of the key requirements for each body, issues covered and comparison to the audit planning

Audit period	1. Programme (CCI and title)	2. Audit Body	3. Audited Body(ies)	4. Date of the audit	5. Scope of the audit	6. Principal findings and conclusions	7. Problems of systemic character and measures taken	8. Estimated financial impact (if applicable)	9. State of follow-up (closed /or not)
01.01.2018.-31.12.2018.	IPA II 2014-2020 Cross-Border Cooperation Programme Montenegro-Kosovo (C (2014) 9307)	Audit Authority of Montenegro + Goa members	All bodies within MCSS of the IPA II 2014-2020 CBC Programme Montenegro-Kosovo	July-December 2018	<p>-Internal Organization and Human resources: NF, NAO SO, CFCU, JTS, KSV HOS, KSV CBC Body, KSV Control Body</p> <p>-Internal control: KSV HOS, KSV Control Body</p> <p>-Irregularities: KSV HOS, KSV Control Body</p> <p>-IT System: KSV HOS, KSV Control Body</p> <p>-Internal audit: KSV HOS, KSV Control Body</p> <p>-Risk Management: KSV Control Body</p> <p>-Communication & Reporting: KSV Control Body</p> <p>-Administrative issue: KSV Control Body</p> <p>-Publicity & Visibility: KSV Control Body</p> <p>-Financial Management: NF, CFCU</p> <p>-Accounting: NF, CFCU</p> <p>-Verification by NAO: NAO SO</p> <p>-Contract procedures: CFCU, JTS</p> <p>-Contract implementation and OTSC: CFCU, JTS</p> <p>-Written procedures related to above mentioned audit areas.</p>	<p><u>Findings related to Montenegro</u></p> <p>1. Official Appointment of the HOS - HOS/HOS Office;</p> <p>2. Deficiencies in verification activities in respect to CBC OS Bodies – NAO Support Office;</p> <p><u>Findings related to Kosovo</u></p> <p>1. Lack of adequate human resource documentation - Control Body;</p> <p>2. Lack of Irregularity Officer and trainings in respect to irregularities - Control Body;</p> <p>3. Deficiencies in the Risk Management – Control Body</p> <p><u>Audit conclusion</u></p> <p>Category 2 - Works, but some improvements are needed.</p> <p>For more details please refer to the point 4.4 of this report</p>	-	-	<p><u>Montenegro</u></p> <p>OPEN findings no. 1,2</p> <p><u>Kosovo</u></p> <p>OPEN findings no. 1,2,3</p> <p>For more details please refer to the point 4.4 of this report</p>

Based on level of implementation of IPA II 2014-2020 CBC Programme "Montenegro-Kosovo", as well as in accordance with adopted Audit Strategy for period 2018-2020 and results of performed risk assessment, the following bodies being part of the management, control and supervision system of this Programme were covered by the system audit:

1. The National Authorizing Officer and Management Structure composed of National Fund and Support Office for the NAO;
2. Contracting Authority (CA);
3. Joint Technical Secretariat (JTS);
4. HOS in Kosovo (KSV HOS)
5. Cross-border Cooperation Body in Kosovo (KSV CBC Body);
6. Control Body in Kosovo (KSV CB).

According to Audit Strategy and risk assessment the key requirements which were under the scope of audit are as follow:

- **National Fund:** Control Environment, Risk Management, Control Activities
- **NAO Support Office:** Control Environment, Risk Management, Control Activities, Monitoring of Internal Control Framework
- **CA/CFCU:** Control Environment, Risk Management, Control Activities, Monitoring of Internal Control Framework
- **JTS:** Control Environment, Risk Management, Control Activities
- **Kosovo HOS:** Control Environment, Risk Management, Control Activities, Information and communication, Monitoring of Internal Control Framework
- **Kosovo CBC Body:** Control Environment, Risk Management, Control Activities, Information and communication, Monitoring of Internal Control Framework
- **Control Body:** Control Environment, Risk Management, Control Activities, Information and communication, Monitoring of Internal Control Framework

According to Audit Strategy the key functions/processes within each body were defined during individual audit engagement planning on the basis of risk assessment. The following audit areas/processes were within the scope of the audit:

- Internal Organization and Human resources: NF, NAO SO, CFCU, JTS, KSV HOS, KSV CBC Body, KSV Control Body
- Internal control: KSV HOS, KSV Control Body
- Irregularities: KSV HOS, KSV Control Body
- IT System: KSV HOS, KSV Control Body
- Internal audit: KSV HOS, KSV Control Body
- Risk Management: KSV Control Body
- Communication & Reporting: KSV Control Body
- Administrative issue: KSV Control Body
- Publicity & Visibility: KSV Control Body
- Financial Management: NF, CFCU
- Accounting: NF, CFCU
- Verification by NAO: NAO SO
- Contract procedures: CFCU, JTS
- Contract implementation and OTSC: CFCU, JTS

Additionally, organizational and personal changes in MCS which occurred after last audit engagement performed during 2017 were covered by system audit through the auditing of Process of planning, assessment and approval of changes in MCS in all IPA Bodies in Montenegro and Kosovo. Also, the follow up of the findings and recommendations given in the course of previous audit was included in the system audit engagement.

The system audit encompassed the period from 28th December 2015¹ to 30th September 2018. The Final Audit Report was issued and submitted to European Commission on 31th December 2018.

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

For the purpose of detailed defining of the scope of the audit, during the preparation of Audit Strategy for period 2018-2020 the Audit Authority performed a detailed risk assessment to determine the bodies and key requirements which will be covered by system audit. Additionally, in order to define the key function/processes within each body we performed risk assessment at process level during system audit engagement planning.

The Audit Authority's methodology for risk assessment is based on the:

- International Standards on Auditing (and in particular ISA 300, 315, 320, 330, 500),
- *EC Guidance document on a common methodology for the assessment of management and control systems in Member States* and
- *EC Guidance on sampling methods for audit authorities*.

During the preparation of Audit Strategy, risks were identified and taken into account at the programme/structures and authorities level while during system audit engagement planning risk assessment was performed at process level. Specific risk factors have been assessed for each body and process. Each risk factor has been assessed as Low, Medium or High, considering both the significance and likelihood of the risk, and has been evaluated in 5-points scale: the highest risk gets highest points and vice versa. In order to distinguish between the factors with varying importance, the weight have been given to the specific risk factors. After assessment, all bodies and processes are ranked according to the total score.

Based on the results of risk assessment, the following bodies being part of the management, control and supervision system of this Programme were covered by the system audit:

1. The National Authorizing Officer and Management Structure composed of National Fund and Support Office for the NAO;
2. Contracting Authority (CA);
3. Joint Technical Secretariat (JTS);
4. HOS in Kosovo (KSV HOS)
5. Cross-border Cooperation Body in Kosovo (KSV CBC Body);
6. Control Body in Kosovo (KSV CB).
- 7.

The following audit areas were examined: Internal organization and Human Recourses, Internal control, Irregularities, IT System, Internal audit, Risk Management, Communication & Reporting, Administrative issue, Publicity & Visibility, Financial Management, Accounting, Verification by NAO, Contract procedures, Contract implementation and OTSC. Also, we audited written procedures related to above mentioned audit areas.

Additionally, organizational and personal changes in MCS which occurred after last audit engagement were covered by the system audit through the auditing of Process of planning, assessment and approval of changes in MCS in all bodies of Management and Operating Structure.

¹ We defined that audit period will be from 28th December 2015 (Date of entry into force Financial Agreement between European Commission and Government of Montenegro)

4.4 Description of the principal findings and conclusions drawn from the audit work for the management and control system and their functioning

The outcome of the audit process is summarized in the Final system audit report that provides findings and recommendations which were identified during the audit process in each body of Management Structure and Operating structures. Findings were categorized according to level of importance to major, intermediate and minor findings. During this audit engagement we identified in total 3 findings related to Montenegrin bodies: 1 major, 1 intermediate and 1 minor. After follow up of recommendation performed in February 2019 we have had 2 intermediate findings (1 mayor finding has been reduced to the intermediate). One minor finding has been closed. In respect to Kosovo bodies we identified 3 intermediate findings during the audit which kept the same level after follow up.

The evaluation of the MCSSs is expressed within one of the four categories as follows:

- Works well; only minor improvements are needed (Category 1);
- Works, but some improvements are needed (Category 2);
- Works partially; substantial improvements are needed (Category 3);
- Essentially does not work (Category 4).

Conclusions per auditee and audited process are given in table below:

IPA Body Audit area	NF	NAO SO	CFCU	HOS OFFICE MNE	CBC BODY MNE	JTS	HOS KSV	CBC BODY KSV	CB KSV	TOTAL
Internal organization and HR	2	2	3	-	-	1	2	2	3	2
Administrative issue	-	-	-	-	-	-	-	-	1	1
IT Policy	-	-	-	-	-	-	1	-	1	1
Risk Management	-	-	-	-	-	-	-	-	3	3
Irregularities	-	-	-	-	-	-	3	-	3	3
Internal Control	-	-	-	-	-	-	3	-	3	3
Internal Audit	-	-	-	-	-	-	2	-	2	2
Publicity and Visibility	-	-	-	-	-	-	-	-	1	1
Communication and Reporting	-	-	-	-	-	-	-	-	1	1
Financial Management	2	-	2	-	-	-	-	-	-	2
Accounting	1	-	1	-	-	-	-	-	-	1
Contract procedures	-	-	2	-	-	1	-	-	-	2

Verification by NAO	-	2	-	-	-	-	-	-	-	2
Contract implementation and OTSC	-	-	1	-	-	1	-	-	-	1
Process of planning, assessment and approval of changes in MCS	1	1	1	3	1	1	1	1	1	2
TOTAL	2	2	2	3	1	1	2	2	3	2

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

4.4.1 Principal Findings and recommendations related to MCSS

A) Principal Findings and recommendations related to MCSS in Montenegro

1. Official Appointment of the HOS

ICF requirement:

1. *Control environment*

(c) Establishment of structures, reporting lines and authorities and responsibilities

Level of priority: *Major*

Body/-ies concerned by the finding: *NIPAC, NAO*

During the audit performed and based on insight in submitted documentation, we determined following:

The NIPAC/Head of HOS Office informed NAO on official appointment of Advisor to the Deputy Chief Negotiator-National IPA Coordinator in the Sector for European Funds, located in the Office for European Integration/Cabinet of Prime Minister of Montenegro, as well as that he will perform function of the Head of Operating structure (HOS).

Despite the fact that Advisor to the Deputy Chief Negotiator-National IPA Coordinator has been officially appointed his appointment as HOS has not been officially issued.

Additionally, in the Rulebook on Internal Organisation and Systematisation of Office for European Integration/Cabinet of Prime Minister of Montenegro HOS position, as well as his tasks and responsibilities are not recognised.

Bearing in mind the fact that HOS has not been official appointed, main activities related to the CBC programmes cannot be implemented in accordance with the valid regulations and written procedures. Identified situation has crucial impact on the effective and efficiency functioning of IPA MCSs.

Recommendation:

HOS should be official appointed as soon as possible.

Implementation deadline: February, 2019

Follow up of implementation of recommendation:

Status: Partly implemented

Level of priority: Intermediate

New Rulebook of Internal Organization and Systematization of European Integration Office was adopted by the Government of Montenegro on 24 January 2019. By new Rulebook the position of Advisor to the Deputy Chief Negotiator-National IPA Coordinator who will inter alia perform the function of Head of operating Structure for CBC programmes has been foreseen.

However Decision on appointment of Key IPA authorities has not been adopted yet. The finding remains open until the adoption of document. Implementation will be monitored in the following period.

2. Deficiencies in system level verification in respect to CBC OS Bodies

ICF requirement:

3. Control activities

(a) Selection and development of control activities

5. Monitoring of internal control framework

(a) On-going and specific monitoring

(b) Assessment, recording and communication of internal control deficiencies

Level of priority: Intermediate

Body/-ies concerned by the finding: NAO/NAOSO

In order to ensure that management and control system works efficiently and effectively, the NAO shall carry out controls over the bodies constituting the Operating Structure through the administrative and on-the-spot checks.

During the audit we determined that in 2018 there were no planned and performed verification checks in IPA bodies which constitute the Operating Structure of CBC programmes. Only follow up control was planned in HOS office to be carried out in IV quarter of 2018.

Additionally, no control was carried out even in 2017.

It may threaten the role of NAO in monitoring of system functioning bearing in mind organizational and personal changes occurred in Operating structure during 2018.

Recommendation

We recommend including verification of the bodies of CBC programmes Operating Structure in Annual on the spot check plan and performing verification .

Implementation deadline: April 2019

Follow up of implementation of recommendation:

Status: Partly implemented

Level of priority: Intermediate

Recommendation implementation deadline has not expired yet. By OTSC Plan for 2019 verification checks of IA/CFCU have been envisaged. Implementation of the OTSC Plan for 2019 will be monitored in the following.

B) Principal Findings and recommendations related to MCSS in Kosovo:

1. Lack of adequate human resource documentation

ICF requirement:

1. Control environment

(c) Establishment of structures, reporting lines, and authorities and responsibilities

(d) Staff planning, recruitment, retention, training and appraisal

2. Risk management

(a) Objective Setting

Level of priority: *Intermediate*

Body/-ies concerned by the finding: *Control Body*

During the audit we determined lack of certain documentation related to human resource management. Namely, in each IPA Body the Annual Work Plan should be prepared aiming to establish goals/objectives for specific periods of time and to determine activities ensuring achievement of set objectives. Annual Work Plan for 2018 was prepared at the level of Ministry of Local Government Administration and includes the tasks/activities with goals/objectives for specific period of time for the IPA CBC Body. However, Plan does not include any task and responsibility that has to be managed by the Control Body neither does it have a separate plan made for the Control Body.

We also identified that Work Load analysis, in order to determine required staffing levels in institutions, has not been carried out. As a consequence, neither the Recruitment plan for 2018 was prepared.

Additionally Sensitive work posts which are subject to increased supervision have not been identified and adequate sensitive posts analysis has not been prepared.

Recommendation:

We recommend:

- Preparing Annual Work Plan for 2019 which will include all objectives and tasks and responsibilities that have to be managed by the Control Body

- preparing and signing Work Load Analysis for 2019 and draft version for 2020 and Recruitment Plan in accordance with results of the WLA;

- identifying Sensitive work posts and preparing adequate analysis of Sensitive work posts

Implementation deadline: January, 2019

Follow up of implementation of recommendation:

Status: Partly implemented

Level of priority: Intermediate

Annual Work Plan for 2019 has been prepared at the level of Ministry of Local Government Administration (MLGA). Plan includes the task and responsibility that has to be managed by the Control Body. Work Load Analysis, Recruitment Plan and Sensitive work posts analysis have not been prepared yet. The finding remains open.

2. Lack of Irregularity Officer and trainings in respect to irregularities

ICF requirement:

1. Control environment

(c) Establishment of structures, reporting lines, and authorities and responsibilities

(d) Staff planning, recruitment, retention, training and appraisal

Level of priority: *Intermediate*

Body/-ies concerned by the finding: Control Body

According to Article 15 of Bilateral Arrangement all relevant Programme authorities shall appoint an Irregularity Officer.

During the audit we determined that Irregularity Officer in Control Body had not been appointed. Further Controllers did not attend any training in respect to prevention, detection and reporting of irregularities and fraud. It may lead to the fact that employees are not aware of the importance of irregularities and are not capable to prevent, detect and report the same which may have an impact on the current system by reducing his effectiveness and efficiency.

Recommendation:

We recommend appointing of Irregularity Officer and organising relevant trainings for Controllers in respect to handling of irregularities and fraud.

Implementation deadline: April, 2019

Follow up of implementation of recommendation:

Status: Not implemented

Level of priority: Intermediate

Recommendation implementation deadline has not expired yet. Irregularity Officer has not been appointed yet. Adequate trainings related to irregularities have not been organized in the previous period. The finding remains open.

3. Deficiencies in the Risk Management

ICF requirement:

1. Control environment

(c) Establishment of structures, reporting lines, and authorities and responsibilities

(d) Staff planning, recruitment, retention, training and appraisal

2. Risk Management

(b) Risk identification, assessment and management

Level of priority: Intermediate

Body/-ies concerned by the finding: Control Body

During the audit we determined the following:

- Risks at the Control Body level have not been identified and assessed

- Controllers have not attended trainings in respect to risk management

It may have an impact on the efficiency of the functioning of the Control Body and disable taking of adequate measures to mitigate the existing risks.

Recommendation:

We recommend:

- Identification, registration and assessment of existent risks in Control Body

- Organising relevant trainings for Controllers in respect to risk management.

Implementation deadline: April, 2019

Follow up of implementation of recommendation:

Status: Not implemented

Level of priority: Intermediate

Recommendation implementation deadline has not expired yet. New version of Programme level control procedures which also contains procedures for risk management has been agreed between two OS, but still not adopted and started to implement. Relevant trainings for Controllers in respect to risk management have not been organized yet. The finding remains open.

4.5 Description of specific deficiencies related to the management of financial instruments

Not applicable.

4.6 Level of assurance obtained following the system audit (low/average/high) and jurisdiction

The evaluation of the MCSSs is expressed within one of the four categories as follows:

- Works well; only minor improvements are needed;
- Works, but some improvements are needed;
- Works partially; substantial improvements are needed;
- Essentially does not work.

According to the results of the system audit conducted during 2018 MCSS established for implementation of the IPA II 2014-2020 CBC Programme "Montenegro-Kosovo" has been classified in **Category 2** that is it '**works, but some improvements are needed**'.

5. AUDITS OF SAMPLES OF TRANSACTIONS

Not applicable. Bearing in mind that no expenditure were declared during the year 2018, the Audit Authority has not been in position to perform audit of transactions/operations regarding the financial year 2018.

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

According to the Annex A of the Framework Agreement Audit Authority of Montenegro issues an annual opinion on the annual financial reports or statements and the underlying annual accounts for the preceding financial year, covering their completeness, accuracy and veracity.

The audit of accounts in respect of accounting year 2018 has been carried out in the second half of February 2019. Our audit was limited due to the fact that there were no expenditures declared in 2018. During 2018 three contracts have been signed within Financing Agreement for the year 2014 and four contracts within Financing Agreement for the year 2015. On the basis of Request for Funds for further pre-financing sent to EC, the amounts of € 157.294,12 (year 2014) and €224.705,88 (year 2015) have been received on relevant MF-NF IPA CBC accounts during 2018, beside pre-financing in amount of € 378.000,00 (year 2014) and € 540.000,00 (year 2015) which were received in 2017.

Our audit was limited and focused only on verification whether all amounts (outflows from IPA accounts) were supported by basic accounting records kept by CFCU and NF as well as on the volume of Union funds on the MF – NF IPA CBC 2014 and 2015 accounts and related procedures.

In line with above mentioned, Audit Authority has performed reconciliation of the balance of the CBC MNE-KSV 2014 and 2015 Euro Accounts declared in the Annual financial report with the bank

statements of the CBC Euro accounts and has verified that amount stated in the Annual financial report corresponds to the amount on the bank statement. We have identified that payments are recorded in accounting books.

For that purpose we took into account also the work done on system audits carried out on the NF and CFCU (verification of the reliability of the accounting system of the National Fund (NF) and CFCU.

In respect to CBC Programmes MNE-KSV 2016 and MNE-KSV 2017, there were no payment transactions.

7. FOLLOW-UP OF PREVIOUS YEARS' AUDIT ACTIVITY

7.1 Information on the follow-up of outstanding audit recommendation and on the follow-up of results of system audit from earlier years

During system audit performed in 2018, Audit Authority carried out follow up of implementation of recommendation related to open findings from the previous year. Results of follow up were presented in Final System audit report.

Additionally, during February 2019 we performed follow up as separate activity before issuing the AAAR and AAO. Follow up covered the findings and recommendations given during system audit performed in 2018 as well as open findings from system audit from 2017.

For the purpose of performing the follow up we have conducted the following activities:

- At the beginning of February 2019 we sent Tables with the summary of findings and recommendations from audits performed in 2017 and 2018 to all IPA bodies in Montenegro and Kosovo with request 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.
- On 22 February 2019 we received information we requested from Montenegrin IPA Bodies, while Kosovo IPA Bodies submitted their response on 26 February 2019. After the analysis of the received responses and documentation collected, Audit Authority in cooperation with Kosovo GoA members assessed the status of the individual recommendation with the respective explanation and prepared Audit Recommendations' Status Reports which were submitted to all IPA Bodies in Montenegro and Kosovo.

7.2 Subsequent events affecting the previous opinion and the previous annual audit activity report

In respect to findings from system audit performed during 2018, results of follow up are presented in Section 4.4.1 of this Report.

As for the findings from the previous year, a summary of the results of their follow up is shown in the tables below:

Status of findings in respect to bodies of MS and OS in Montenegro:

No	Findings identified during the System audit	Body	Status in February 2019	New deadline
1.	Understaffing	NF, NAOSO, IA/CFCU, NIPAC Office	Open Progress in respect to the employment of necessary staff is evident. However discrepancy between needed and current number of staff still exist. Level of priority: <i>Intermediate</i>	September 2019
2.	Inadequate retention policy	All IPA Bodies	Closed Decision on top-up of salaries for IPA positions has been approved by the Government of Montenegro on 27 December 2018. Significant progress with regard to measures taken to retain and motivate employees has been made.	
3	Deficiency in the process of the Risk Management	NF/NAO SO, CFCU, HOS Office	Closed Awareness of the importance of including high level authorities and top management in the risk management process has been raised. In previous period numerous meetings were held between NAO and IPA actors as well as meeting with Vice Prime Minister on which certain conclusions were done in order of mitigation of risks and more efficient implementation of the IPA programs.	
4.	Deficiency in the MoP Written Procedures	NFD, NAOSO, HOS Office, CBC Body, IA/CFCU	Open Draft version 2.0 of MoP has been prepared but not adopted yet. The finding remains open, until the adoption of the new version of MoP. Level of priority: <i>Intermediate</i>	June 2019
5.	Lack of the Programme level control procedure	NAO/NAOSO, NFD, HOS/HOS Office, CBC Body, IA/CFCU	Partly implemented Version 2.0 of PLCP has been prepared and agreed between two Operating Structures. However, it has not been approved yet by NAO. Level of priority: <i>Intermediate</i>	June 2019
6.	Inadequate backup of data and insufficient number of trainings related to IT	NF, NAOSO, HOS Office, CBC Body, IA/CFCU	Open Action plan ISO 27002 which will contain 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 under preparation. The finding remains open until the adoption of Action Plan. Level of priority: <i>Intermediate</i>	June 2019
7.	Disrespecting of procedures related to the Planning of EU Funds	HOS Office, CBC Body, IA/CFCU	Closed Progress in respecting the prescribed written procedures is evident. However, it is necessary that results of the negotiations with Budget Directorate should be submitted to the HOS by Head of CFCU, in accordance with the procedures.	

8.	Disrespecting of procedures related to the Changes in the MCSS	HOS Office, CBC Body, IA/CFCU	Closed Taking into account submitted documentation and information, we consider that procedures were respected during 2018.	
9.	Insufficient number of staff in the Internal Audit Department	NF, NAOSO, IA/CFCU	Open Although the significant progress in implementation of recommendation has been made, further strengthening of internal audit capacity is necessary. Level of priority: <i>Intermediate</i>	September 2019
10.	Reporting in respect to Monthly Progress	HOS, IA/CFCU	Closed Based on the submitted documentation during OTSC it is evident that monthly progress reports have been prepared timely.	
11.	Insufficient knowledge of procedures in respect to the new Information System	HOS Office	Open Implementation will be monitored in the following period. Level of priority: <i>Intermediate</i>	September 2019
12.	Implementation of the Annual on-the-spot checks Plan	HOS Office	Closed Annual OTSC Plan for 2018 was implemented. Also Plan for 2019 has been prepared. Trainings in respect to management verification were organized for HOS Office staff in previous period.	
13.	Deficiency in the Work Load Analysis	CFCU	Closed WLA for 2019 was prepared in accordance with audit recommendation.	
14.	Deficiency in the Annual Work Plan	CFCU	Closed AWP for 2019 was prepared in accordance with recommendation.	
15.	Disrespecting of the Substitution Policy and Handover Procedures	CFCU	Closed Requirement for number of needed Accountants positions has been fulfilled. Namely, exception on written procedures (substitution policy) has been initiated by CFCU and approved by Deputy NAO.	
16.	Inadequate premises and archiving space	CFCU	Closed During last period (mid-March) CFCU staff moved in the new premises which have adequate space and equipment for archiving confidential and other files. All documentation is kept in separate area and in the individual registers per project.	
17.	Deficiencies in the Job Descriptions	HOS Office, CBC Body, IA/CFCU	Open Template for HOS Job Description is prepared and approved by NAO. A new version of MoP which will contain updated templates for Job Descriptions has not been adopted yet. The finding remains open until adoption of MoP Version 2.0 Level of priority: <i>Minor</i>	September 2019

18.	Inadequate space	archiving	HOS Office, CBC Body	<i>Closed</i> The EIO Registry Office has moved to the new premises which are considered adequate, although there is still room for improvement of archive space.	
19.	Inadequate Policy	Training	CFCU	<i>Closed</i> Annual Training Plan has been prepared based on the filled-in TNAQs by all CFCU staff. Exceptions of training procedures has been initiated and approved by Deputy NAO (Annex TNSA has been excluded).	

During the system audit performed in 2017 we identified 28 findings related to Montenegrin bodies. 9 findings had been closed during follow up performed in January and February 2018. Out of 19 findings which remained open after the previous Annual audit activity report, 5 of them have been closed during the follow up performed together with system audit in 2018 and 7 findings during the follow up performed as separate activity in February 2019.

Status of findings in respect to bodies of OS in Kosovo:

No	Findings identified during the System audit	Body	Status in February 2019	New deadline
1.	Lack of procedures related to control activities	HOS, CBC Body	<i>Partly implemented</i> Procedures are developed in draft document Programme level control procedures. However PLCP has not been approved yet. Level of priority: <i>Intermediate</i>	June 2019
2.	Lack of procedures regarding reporting of irregularities	HOS	<i>Partly implemented</i> Procedures are developed in draft document Programme level control procedures. However PLCP has not been approved yet. Level of priority: <i>Intermediate</i>	June 2019
3.	Lack of adequate human resource documentation	CBC Body	<i>Open</i> During January 2018 based on the existing formats within the Ministry the following documents are prepared: 1. Substitution Plan and Substitution plan per case in order to provide the continuity of operation; 2. Annual training plan for 2018 and individual trainings register and seminars. However, most of the human resource documentation (WLA, Recruitment Plan, Sensitive work post analysis) have not been prepared. Human resource management procedures have been developed in more details in the draft Programme level control procedures. However, PLCP have not been approved yet.	June 2019

4.	Missing internal procedures and templates for fraud risk	CBC Body	<p>Partly implemented</p> <p>Procedures are developed in draft document Programme level control procedures. However PLCP has not been approved yet.</p> <p>The position of Irregularity Officer for CBC has been foreseen in the new Regulation on Internal Organisation and Systematization of Jobs in the Ministry of Local Government Administration. However, Irregularity Officer has not been appointed yet.</p> <p>Level of priority: <i>Intermediate</i></p>	June 2019
5.	Deficiencies in the Risk Management	CBC Body	<p>Partly implemented</p> <p>Procedures are developed in draft document Programme level control procedures. However PLCP has not been approved yet.</p> <p>The position of Risk Manager for CBC has been foreseen in the new Regulation on Internal Organisation and Systematization of Jobs in the Ministry of Local Government Administration. However, Risk Manager has not been appointed yet.</p> <p>Level of priority: <i>Intermediate</i></p>	June 2019
6.	Control Body has not been established	HOS	<p>Partly implemented</p> <p>According to the new Regulation on Internal Organisation and Systematization of Jobs in the Ministry of Local Government Administration it is foreseen that function of Control Body will be performed by Division for the Control of Cross-Border Cooperation Programmes as a separate Division within the Department of Inter-Municipal and Cross-Border Cooperation.</p> <p>The regulation has not yet entered into force and implemented.</p> <p>Level of priority: <i>Intermediate</i></p>	June, 2019
7.	Lack of Inter-institutional agreements	NIPAC HOS CBC Body Control Body	<p>Partly implemented</p> <p>The draft inter-institutional agreements have been prepared with the support of CBIB+ but not endorsed yet.</p> <p>Level of priority: <i>Intermediate</i></p>	June 2019
8.	Internal audit unit in the Ministry of Local Government Administration (MLGA)	HOS, CBC Body	<p>Partly implemented</p> <p>The audit of EU funds has been included in Annual Audit Plan.</p> <p>The IAU Audit Manual has not been updated and trainings for audit of EU funds have not been provided for IAU staff.</p> <p>Level of priority: <i>Intermediate</i></p>	December 2019
9.	Lack of procedure regarding IT policy	HOS, CBC Body	<p>Closed</p> <p>There is the Administrative Order of the Ministry of Public Administration for the Security information policy that applies to all line Ministries.</p> <p>Agency for Information and Society (AIS) provides all the line Ministries with the backup of data. Ministry of Public Administration is responsible for maintaining the entire IT system of the Government, including the data security.</p>	

10.	Internal Audit Unit in the Ministry of European integration (MEI)	NIPAC	<i>Closed</i> AA and GoA accepted Management response.	
11.	Lack of Job description and training policy in respect to the Annual Management Guarantee process	CBC Body	<i>Partly implemented</i> Procedures in respect to the Human resource management and Annual Management Guarantee have been developed in more details in draft Programme level control procedures. However, PLCP have not been finalized and approved yet. Several trainings session were organized for staff during 2018, but it is necessary to ensure it continuously. Level of priority: <i>Minor</i>	June 2019
12.	Deficiencies related to the Publicity and Visibility	CBC Body	<i>Closed</i> The tasks of Publicity and Visibility Officer are performed within the Communication and Information Office in the Ministry of Local Government Administration. All activities related to the implementation of CBC programme are published on the website of the MLGA and sent to media by this Office.	

During system audit performed in 2017 we identified 12 findings related to Kosovo bodies. No findings were closed during follow up performed in January and February 2018. During the follow up performed together with system audit in 2018, 3 findings were closed.

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

10. TABLE FOR DECLARED EXPENDITURE AND SAMPLE AUDITS

Not applicable.

			A	B		C	D	E		F	G	H=F-G	GI	JH
Fund	Reference (CCI)	Programme	Expenditure declared to the Commission in reference to the year	Expenditure in reference to the financial year audited for the random sample		Total number of units in the population	Number of sampling units for the random sample	Amount and percentage (error rate) of irregular expenditure in random sample		Total projected error rate	Corrections implemented as a result of the total error rate	Residual total error rate	Other expenditure audited	Amount of irregular expenditure in other expenditure sample
				Amount	%			Amount	%	%				
	C(2014) 9307	IPA II 2014-2020 Cross-Border Cooperation Programme Montenegro-Kosovo	/	/	/	/	/	/	/	/	/	/	/	/