



**MONTENEGRO
AUDIT AUTHORITY**

Nº: 3011-4-06-75/2
Date: 14th March 2019

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

Podgorica, March 2019

Contents

1. INTRODUCTION	4
1.1 Details of the responsible Audit Authority and other bodies that have been involved in preparing the Report.....	4
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).....	4
1.3 Identification of the sector/policy area(s) covered by the report and of its/their operating structure and management structure.....	6
1.4 Description of the steps taken to prepare the report and to draw the audit opinion.....	6
2. SUBSTANTIAL CHANGES IN MANAGEMENT AND CONTROL SYSTEMS.....	6
2.1 Changes in the MCS since last Annual Audit Activity Report in respect to Montenegro..	7
2.2 Changes in the MCS since last Annual Audit Activity Report in respect to Albania.....	8
3. CHANGES TO THE AUDIT STRATEGY	9
4. SYSTEMS AUDITS	9
4.1. Details of the bodies that have carried out system audit	9
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	10
4.3 Description of the basis for selection of the audits in the context of the audit strategy....	11
4.4 Description of the principal findings and conclusions drawn from the audit work for the management and control system and their functioning	12
4.4.1 Principal Findings and recommendations related to MCSS	13
4.5 Description of specific deficiencies related to the management of financial instruments	16
4.6 Level of assurance obtained following the system audit (low/average/high) and jurisdiction	16
5. AUDITS OF SAMPLES OF TRANSACTIONS	17
6. AUDITS OF THE ANNUAL FINANCIAL REPORTS OR STATEMENTS/ANNUAL ACCOUNTS.....	17
7. FOLLOW-UP OF PREVIOUS YEARS' AUDIT ACTIVITY	17
7.1 Information on the follow-up of outstanding audit recommendation and on the follow-up of results of system audit from earlier years	17
7.2 Subsequent events affecting the previous opinion and the previous annual audit activity report	18
8. OTHER INFORMATION	22
9. OVERALL LEVEL OF ASSURANCE	22
10. TABLE FOR DECLARED EXPENDITURE AND SAMPLE AUDITS	23

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
MFE	Ministry of Finance and Economy
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-Albania" (C (2014) 9352). It has been assisted by the Group of Auditors (GoA) composed of representatives by the Audit Authority of Montenegro and Audit Agency for the EU - Accredited Assistance Programmes of Albania.

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-Albania". 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-Albania", 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. Cross-border Cooperation Body in Albania (AL CBC Body)
5. Control Body in Albania (AL 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;
- **Albanian CBC Body:** Control Environment, Risk Management, Control Activities, Information and communication, Monitoring of Internal Control Framework;
- **Control Body:** Control Environment, Risk Management, Control Activities.

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, AL CBC Body, AL 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 MCSS 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 MCSS in all IPA Bodies in Montenegro and Albania.

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-Albania" for the year 2014 (2014/037-593) and the Cross-Border Cooperation Action Programme "Montenegro-Albania" for the years 2015-2017 (2015/038-158, 2016/038-174 and 2017/038-175) which provide assistance for cross-border cooperation in the thematic area spelled out in the IPA II 2014-2020 CBC Programme "Montenegro – Albania" (C(2014) 9352).

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 Albania composed of: Head of the Operating Structure (AL HOS) and Cross-border Cooperation Body (AL CBC Body) which shall be located in the Ministry for Europe and Foreign Affairs;
- Control Body (AL CB) placed in the Ministry of Finance and Economy of Albania.

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 Eurović 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 Albania

During 2018, the following changes occurred in the Albanian Operating structure:

- **General Director of CFCU**

By the Decision of Department of Public Administration on 1st February 2018 Mrs. Enkelejda Kokthi was appointed as a new General Director of CFCU.

European Commission was informed about this change by the official letter N° 2637/2 from 13 February 2018.

- **Organizational changes within Ministry of Finance and Economy**

By the Order of Prime minister No.88 from 13 June 2018 on the “Approval of the structure of the organogram of General Directorate” CFCU is no longer part of the Ministry of Finance and Economy apparatus, but a dependent institution under MFE.

European Commission was informed about this change by the official letter Prot.No.21751 from 12 December 2018.

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 MCSS in all IPA Bodies in Montenegro and Albania.

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

As regard to Albanian bodies, for each substantial change Albanian NAO has informed the EC by official letter. However, during the audit it was determined that the procedure related to announcement and assessment of changes has not been fully respected by HOS, CBC Body and Control Body and finding related to this deficiency was issued.

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 – Albania" 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 - Albania", 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 – Albania", it is assisted by Group of auditors comprising a representative of Audit Authority of Montenegro and the Audit Agency for the EU Accredited Assistance Programmes of Albania. The Audit Agency for the EU-Accredited Assistance Programmes of Albania is an independent body established by Law N° 90/2016 "On the organisation and functioning of the Audit Agency for the EU-Accredited Assistance Programmes in the Republic of Albania".

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- Albania (C (2014) 9352)	Audit Authority of Montenegro + Goa members	All bodies within MCSS of the IPA II 2014-2020 CBC Programme Montenegro- Albania	July- December 2018	-Internal Organization and Human Resources Management – NF, NAO SO, CFCU, JTS, AL CBC Body, AL Control Body; -Financial Management – NF, CFCU; -Accounting – NF, CFCU ; -Verification by NAO – NAO Support Office; -Contract procedures – CFCU, JTS; -Contract implementation and OTSC – CFCU, JTS; -Process of planning, assessment and approval of changes in MCS all IPA Bodies; -Written procedures related to above mentioned audit areas.	<u>Findings related to Montenegro</u> 1. Official Appointment of the HOS - HOS/HOS Office; 2. Deficiencies in verification activities in respect to CBC OS Bodies – NAO Support Office; <u>Findings related to Albania</u> 1. Lack of Annual Work Plan for the year 2018 - Control Body; 2. Lack of identification and assessment of changes in MCSS - CBC Body, Control Body <u>Audit conclusion</u> Category 2 - Works, but some improvements are needed. For more details please refer to the point 4.4 of this report	-	-	<u>Montenegro</u> OPEN findings no. 1,2 <u>Albania</u> OPEN findings no. 1,2 For more details please refer to the point 4.4 of this report

Based on level of implementation of IPA II 2014-2020 CBC Programme "Montenegro-Albania", 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. Cross-border Cooperation Body in Albania (AL CBC Body)
5. Control Body in Albania (AL 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;
- **Albanian CBC Body:** Control Environment, Risk Management, Control Activities, Information and communication, Monitoring of Internal Control Framework;
- **Control Body:** Control Environment, Risk Management, Control Activities.

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, AL CBC Body, AL 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 Albania.

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

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)

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. National Authorizing Officer (NAO) and Management Structure (MS) composed of National Fund (NF) and Support Office for the NAO (NAOSO);
2. Contracting Authority (CA);
3. Joint Technical Secretariat (JTS);
4. Cross-border Cooperation Body in Albania (AL CBC Body) and
5. Control Body (AL CB).

The following audit areas were examined: Internal organization and Human Recourses, Financial Management, Accounting, Verification by NAO, Contract procedures and Contract implementation and OTSC. Also, we audited written procedures related to above mentioned audit areas.

Additionally, organizational and personal changes in MCSS 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.

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 Albanian bodies we identified 2 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;
- Works, but some improvements are needed;
- Works partially; substantial improvements are needed;
- Essentially does not work.

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

IPA Body Audit area	NF	NAOSO	CA/CFCU	HOS OFFICE MNE	CBC BODY MNE	JTS	CBC BODY AL	CB AL	TOTAL
Internal organization and HR	2	2	3	-	-	1	3	2	2
Financial Management	2	-	2	-	-	-	-	-	2
Accounting	1	-	1	-	-	-	-	-	1
Verification by NAO	-	2	-	-	-	-	-	-	2
Contract procedures	-	-	2	-	-	1	-	-	2
Contract implementation and OTSC	-	-	1	-	-	1	-	-	1
Process of planning, assessment and approval of changes in MCS	1	1	1	3	1	-	3	3	2
TOTAL	2	2	2	3	1	1	3	2	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 period.

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

1. Lack of Annual Work Plan for the year 2018

ICF requirement:

1. *Control environment*

(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 system audit in the Control Body it was noticed that the Annual Work Plan for the year 2018 has not been prepared. Also this problem was faced in the Work Load Analysis 2018-2020 which was presented in a general form. The WLA does not cover all the activities that are prescribed in the Programme level control procedures.

Lack of Annual Work Plan may lead to a risk of ineffective planning of the work in the Control body and inefficient staff planning to achieve the objectives set out during the year. Also this lack can lead into a wrong calculation in the number of necessary staff which is presented in WLA.

Recommendation:

We recommend preparing of the Annual Work Plan and revising the WLA based on the AWP in order to cover all the activities.

Implementation deadline: January, 2019

Follow up of implementation of recommendation:

Status: Not implemented

Level of priority: Intermediate

Annual Work Plan for 2019 has not been prepared yet. Work Load Analysis has not been updated. The finding remains open.

2. Lack of identification and assessment of changes in MCSS

ICF requirement:

2. *Risk management*

(d) Identification and assessment of changes affecting the system of internal controls

Level of priority: *Intermediate*

Body/-ies concerned by the finding: *HOS, CBC Body, Control Body*

During the performance of the system audit in the Control Body and CBC Body it is detected that changes that has planned to happen in the respective structure are not performed in accordance with the draft Programme level control procedures for the IPA II CBC.

During September 2017 some institutions were restructured. Following this restructure the CBC Body which previously was situated in the Ministry of European Integration now is in the Ministry of the Europe and Foreign Affairs. With Minister of Europe and Foreign Affairs order No.50, dated 29.01.2018 the Director of the Directorate of EU funds is assigned to perform the function of Head of the Operating Structure. Also the Sector of Programing of Territorial Support in the Directorate of EU funds was assigned as Territorial Cooperation Unit.

Also with the Prime Minister Order No.88, dated 13.06.2018 the organization structure of CFCU has changed. According to this change the First Level Control, which previously was in the Financial Management Sector, now is organized as a separate sector with the same dedicated staff.

Based on the point 2.3 of the Procedure, the Head of IPA Body initiating the change informs the Albanian HOS on planned change, in written. After this notification, HOS assess the change as minor or substantial and whether the change could have the influence on the accredited system. In order to ensure communication flow and timely reaction of all relevant parties, the procedure for changes announcement must be fully respected.

From the information gathered from CBC Body and Control Body this process is not performed and the change are not assessed.

Recommendation:

We recommend the following:

- HOS have to assess the changes that can affect the effectiveness of internal control and have impact on the organization's achievement of objectives.
- In the future CBC Body and Control body are required to follow closely the requirement of the Programme level control procedures for the IPA II CBC.

Implementation deadline: January, 2019

Follow up of implementation of recommendation:

Status: Partly implemented

Level of priority: Intermediate

From the information submitted by the Auditee, the Albanian Control Body has provided comments regarding the PLCP procedures, the constituent part of which is also the procedure for assessment of changes. The Albanian Control Body is waiting the confirmation from the Montenegrin part in order to proceed. 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-Albania" 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 four 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 € 272.532,85 (year 2014) and €318.878,45 (year 2015) have been received on relevant MF-NF IPA CBC accounts during 2018, beside pre-financing in amount of € 357.000,00 (year 2014) and € 510.000,00 (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-ALB 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-ALB 2016 and MNE-ALB 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 Albania 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 Albanian IPA Bodies submitted their response on 1 March 2019. After the analysis of the received responses and documentation collected, Audit Authority in cooperation with Albanian 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 Albania.

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 archiving space	HOS Office, CBC Body	Closed 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 Training Policy	CFCU	Closed 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 27 findings related to Montenegrin bodies. 8 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 Albania:

No	Findings identified during the System audit	Body	Status in February 2019	New deadline
1.	Deficiencies in the process of issuing Annual Management Guarantee	HOS, CBC Body, Control Body	Partly implemented AMG was issued in accordance with prescribed procedures. However the, main AMG tasks and activities are not included in the job descriptions and segregation of duties should be respected. Level of priority: <i>Minor</i>	September 2019
2.	Lack of Inter-institutional agreements (Implementing and/or Operational Agreement) and adequate Legal Basis	NIPAC, HOS, CBC Body, Control Body	Open Relevant Inter-institutional agreements have not been concluded yet. Adequate legal act for designation of Control Body has not been adopted yet. Level of priority: <i>Intermediate</i>	May 2019
3.	Lack of ICT Infrastructure	HOS, CBC Body, Control Body	Closed With the Council of Minister Decree No.673, dated 22 November 2017 all the IT Infrastructure for all the public administration is under NAIS, the public institution that administers all IT systems of public institutions, both hardware and software.	
4.	Deficiencies in the Risk Management procedures	HOS, CBC Body, Control Body	Closed As of 31 January 2018, the Head of Unit for Management of Territorial Cooperation has been appointed as the new Risk Manager within the CBC Body. Risk registers have been revised and improved in CBC Body and CFCU.	
5.	Lack of Internal Control procedures	HOS, CBC Body	Partly implemented PLCP has been finalized between two OS and Control Body but not officially approved yet. Level of priority: <i>Minor</i>	October 2019
6.	Lack of Irregularities procedures	HOS, CBC Body	Partly implemented PLCP which include irregularity procedures as well has been finalized between two OS and Control Body but not officially approved yet. Level of priority: <i>Minor</i>	October, 2019
7.	Lack of Work Load Analysis, Recruitment plan and Job descriptions	HOS, CBC Body	Partly implemented There were no WLA prepared for 2019, so the substitution plan and recruitment plan have not been prepared for 2019. Level of priority: <i>Intermediate</i>	May,2019
8.	Inadequate Human Resource policy (Training and Substitution Plan, Handover and Sensitive Posts)	HOS, CBC Body	Partly implemented The level of sensitivity for each work post is tackled in the Capacity review table. Also, the replacement of staff is planned and ensured according the plan in the last column of the Capacity Review Table. Handover procedures have been described in PLCP which are finalized between two OS and Control Body but not officially approved yet. Level of priority: <i>Minor</i>	October, 2019

9.	Understaffing, Deficiencies in the Job descriptions and lack of Individual Training register	Control Body	<i>Closed</i> Control Body with actual organizations structure has no job vacancies. Job descriptions have been updated and are in process of approval due to reorganization of the General Directorate/CFCU.	
----	--	--------------	---	--

During system audit performed in 2017 we identified 13 findings related to Albanian bodies. 3 findings had been closed during follow up performed in January and February 2018. Of the remaining 10 findings, 3 of them have been closed during the follow up performed together with system audit in 2018 and 1 finding during the follow up performed as separate activity in February 2019. 6 findings is still 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 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) 9352	IPA II 2014-2020 Cross-Border Cooperation Programme Montenegro-Albania	/	/	/	/	/	/	/	/	/	/	/	/