



**MONTENEGRO
AUDIT AUTHORITY**

No: 3011-4-06-132

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**ANNUAL AUDIT ACTIVITY REPORT
FOR
2015-2017 SECTORAL OPERATIONAL PROGRAMME FOR
MONTENEGRO ON EMPLOYMENT, EDUCATION AND SOCIAL
POLICIES (SOPEES)**

Podgorica, March 2020

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LIST OF ABBREVIATIONS

| | |
|---------|---|
| AA | Audit Authority of Montenegro |
| AAAR | Annual Audit Activity Report |
| AAO | Annual Audit Opinion |
| AMD | Annual Management Declaration |
| CFCU | Central Finance and Contracting Unit |
| DG NEAR | Directorate General for Neighbourhood and Enlargement Negotiations |
| DMS | Directorate for Management Structure |
| EC | European Commission |
| EU | European Union |
| FWA | Framework Agreement |
| IA | Implementing Agency |
| IAD | Internal Audit Department |
| ICFR | Internal Control Framework Requirement |
| IPA II | Instrument for Pre-Accession Assistance II perspective |
| IPA | Instrument for Pre-Accession Assistance |
| MCSS | Management, Control and Supervision System |
| MoE | Ministry of Education |
| MoP | Manuel of Procedures |
| MHMR | Ministry for Human and Minority Rights |
| MLSW | Ministry of Labour and Social Welfare |
| MS | Management Structure |
| MoS | Ministry of Science |
| NAO SO | NAO Support Office |
| NAO | National Authorising Officer |
| NFD | National Fund Division |
| NIPAC | National IPA Coordinator |
| OG MNE | Official Gazette of Montenegro |
| OS | Operating Structure |
| PIU | Project Implementation Units |
| PWA | Public Works Administration |
| QAMR | Quarterly Action Monitoring Report |
| SOPEES | Sectoral Operational Programme on Employment, Education and Social policies |
| WLA | Work Load Analysis |

1. INTRODUCTION

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

The Audit Authority of Montenegro, as an independent audit body, was established by the Law on Audit of EU Funds (OG 14/12, 54/16, 37/17 and 70/17). The Audit Authority is responsible for audit of EU funds (IPA, Structural Funds after the accession of Montenegro to the European Union, and other EU funds). According to Article 3 of the Law on Audit of EU funds, the AA is functionally and operationally independent of all actors in EU funds management and control system.

The Law on Audit of EU Funds prescribes that auditees 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)- (OG MNE, No 5/2015) and in Commission Implementing Regulation (EU) No 447/2014 on the specific rules for implementing Regulation (EU) No 231/2014 of the European Parliament and of the Council establishing an Instrument for Pre-accession Assistance (IPA II).

The Audit Authority is responsible for verifying:

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

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

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

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

Pursuant to Article 3(f) of the Framework Agreement between Montenegro and the European Commission on the arrangements for implementation of Union financial assistance to Montenegro under the Instrument for Pre-accession Assistance (IPA II), reference period for this Annual Audit Activity Report is financial year and covers the period from on 1st January to 31st December 2019.

When it comes to system audits, for the purpose of detailed defining scope of the audit we performed a risk assessment to determine the bodies and ICFR area which will be covered by system audit. For the preparation of Audit Strategy, risks were identified and taken into account at the programme/structures and authorities level. Additionally, in order to define the key requirements within each body and ICFR area, we performed risk assessment at the level of each assessment criterion/requirement during system audit engagement planning. For more details about scope of system audits carried out, see sections 4.2 and 4.4.

Bearing in mind that during 2018 and 2019 no expenditure was declared to EC, Audit Authority has not been in a position to perform audit of operations regarding SOPEES.

In order to conclude that the Annual Financial Report gives a true and fair view, the Audit Authority verified that all elements required by models stipulated in Annex IV of the Financing Agreement concerning the 2015-2017 Sectoral operational programme for Montenegro on Employment, Education and Social policies (SOPEES), i.e. cumulative amounts declared from the Programme, are correctly included in the accounts and correspond to the supporting accounting records maintained by bodies in the National Fund Division (NF) and Implementing Agencies/Central Financing and Contracting Unit (CFCU) and Public Works Administration (PWA).

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

The report covers Multi-annual action programme for Montenegro on Employment, Education and Social policies (2015/037-895).

The main aim of the program is to provide the developed and cohesive society through provision of better conditions for raising levels of employability of citizens, improvement of quality of formal and non-formal education and lifelong learning, with social inclusion of persons in disadvantaged position and decrease of poverty risk. Determined funds are planned for implementation of 4 actions (priority axes):

- Action 1 – Improving the Labour Market and Increasing Employability
- Action 2 – Enhancing the Education System
- Action 3 – Improving Social Inclusion and
- Action 4 – Technical assistance.

Financing Agreement for the 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (2015/037-895) was signed on 12th July 2018.

The total estimated cost of Programme is EUR 18.000.000,00 and the maximum Union contribution to this Programme is set at EUR 15.300.000,00.

The authorities responsible for implementation of the IPA II 2015-2017 Sectoral operational programme for Montenegro on Employment, Education and Social policies (SOPEES) are as follows:

- **National IPA Coordinator of Montenegro** - Deputy Chief Negotiator in the Office for European Integration within the Cabinet of Prime Minister of Montenegro.
- **The National Authorizing Officer of Montenegro** - State Secretary in the Ministry of Finance.
- **Directorate for the Management Structure** with two separate divisions, one for financial issues (Division for National Fund) and one for the support to the NAO (Division for System Supervision).
- **The Operating Structure (OS)** composed of: NIPAC office, Implementing Agencies Central Finance and Contracting Unit (CFCU) and Public Works Administration (PWA), Programme Implementation Units of the line ministries: Ministry of Labour and Social Welfare, Ministry of Science, Ministry of Education, Ministry for Human and Minority Rights.

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 and 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 action plans prepared on the basis of audit recommendations.

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

The NAO prepares and, with copy to the NIPAC and the Audit Authority, provides the Commission with annual financial reports or statements on accrual basis which clearly distinguishes costs accepted and payments made, an annual management declaration per programme and a summary of the reports on the internal audits and of controls carried out by the management structure, providing a sound basis for the management declaration by 15th February of the following financial year.

With a view to drawing up an audit opinion, Audit Authority shall assess results of audit activities from the performed audits of management and control system, on sample of declared expenditure and accounts and assess the consistency of the management declaration with regard to performed audit work.

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

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

2. SUBSTANTIAL CHANGES IN MANAGEMENT AND CONTROL SYSTEMS

2.1. Details of any substantial changes in the management and control systems, and confirmation of its compliance with Article 7 of Commission Implementing Regulation (EU) No 447/2014 based on the audit work carried out by the audit authority under Article 12 of Commission Implementing Regulation (EU) No 447/2014

During 2019 the NAO informed the European Commission and Audit Authority about substantial and planned changes in the system.

➤ Organizational

Decision on top up on salaries for IPA staff

The Government of Montenegro adopted the Decision on top up on salaries for IPA staff, which came into force on 9th March 2019. The Decision was published in the Official Gazette of Montenegro no. 13/19 on 1st March 2019.

Decision on the appointment of persons responsible for carrying the functions in relation to decentralised and/or indirect management

New Decision on the appointment of persons responsible for carrying the functions in relation to decentralised and/or indirect management of pre-accession funds of the European Union (EU) was adopted by the Government of Montenegro. The Decision was published in Official Gazette no. 33/19 on 14th June 2019.

➤ Personal changes

Head of NIPAC Office

Based on the Decision on appointment no. 01-004-574 from 11th February 2019, Mr Bojan Vujović was appointed as Head of the NIPAC Office. NAO informed European Commission and Audit Authority on this personal change on 26th June 2019. (Letter No: 01-9872).

Deputy NIPAC

By the Decision on appointment no. 01-004-813 from 19th March 2019 sent to the NAO, Ms Ivana Vujošević was appointed Deputy of National IPA Coordinator.

Head of NAOSO

Based on the Decision on appointment from 1st April 2019 sent to NAO, Mr Velibor Damjanović was appointed the Head of NAO Support Office. NAO informed European Commission and Audit Authority on this personal change on 26th June 2019. (Letter No: 01-9872).

2.2. The dates from which these changes apply, the dates of notification of the changes to the audit authority, as well as impact of these changes on the audit work are to be indicated

The changes that occurred in MCSS in 2019 have been communicated to the European Commission and the Audit Authority. Changes have been assessed by Audit Authority and we can confirm its compliance with Article 7 of Commission Implementing Regulation (EU) No 447/2014.

Changes related to nominations of Head of NIPAC Office, Deputy NIPAC and Head of NAO SO have positive impact on functioning of MCSS considering that the newly appointed persons have previous experience in dealing with IPA funds and given that it imply strengthening of capacity of these IPA Bodies.

The changes that occurred in MCSS in 2019 do not have an impact on the audit work.

3. CHANGES TO THE AUDIT STRATEGY

3.1. Details of any changes that have been made to the audit strategy or are proposed, and of the reasons for them

Not applicable.

Until the moment of issuing this AAAR there were no any changes that have been made to the audit strategy or are proposed.

3.2. The audit authority differentiates between the changes made or proposed at a late stage, which do not affect the work done during the reference period and the changes made during the reference period, that affect the audit work and results

Not applicable.

4. SYSTEM AUDITS

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

All system audits were conducted by Audit Authority of Montenegro.

4.2. Summary table of the audits carried out

| 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) |
|-------------------------------|---|-------------------------------|------------------------|----------------------|--------------------------------------|--|--|---|--|
| 12/07/2018 - 31/12/2019 | (C (2015) 9051) Multi-annual action programme for Montenegro on Employment, Education and Social policies | Audit Authority of Montenegro | NAO and NASO | June – December 2019 | ICFR 1 ICFR 3 ICFR 4 ICFR 5 | a) Strengthening internal audit capacities; b) IT policy – Back up of data and trainings. | / | / | Open Open |
| 12/07/2018 - 31/12/2019 | (C (2015) 9051) Multi-annual action programme for Montenegro on Employment, Education and Social policies | Audit Authority of Montenegro | National Fund Division | June – December 2019 | ICFR 1 ICFR 3 ICFR 4 | a) Strengthening internal audit capacities; b) IT policy – Back up of data and trainings. | / | / | Open Open |
| 12/07/2018 - 31/12/2019 | (C (2015) 9051) Multi-annual action programme for Montenegro on Employment, Education and Social policies | Audit Authority of Montenegro | CFCU / IA | June – December 2019 | ICFR 1 ICFR 3 | a) Staffing and employees' turnover in CFCU; b) Strengthening internal audit capacities; c) IT policy – Back up of data and trainings. | / | / | Open Open Open |
| 12/07/2018 - 31/12/2019 | (C (2015) 9051) Multi-annual action programme for Montenegro on Employment, Education and Social policies | Audit Authority of Montenegro | PAW / IA | June – December 2019 | ICFR 1 ICFR 3 | a) Understaffing and employees' turnover in PWA; b) Strengthening internal audit capacities; c) IT policy – Back up of data and trainings. | / | / | Open Open Open |
| | (C (2015) 9051) Multi-annual action | | | | | a) Strengthening internal audit | | | Open |

Annual Audit Activity Report

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| 12/07/2018 - 31/12/2019 | programme for Montenegro on Employment, Education and Social policies | Audit Authority of Montenegro | MLSW / PIU | June – December 2019 | ICFR 1 ICFR 3 | capacities; b)IT policy – Back up of data and trainings. | / | / | Open |
| 12/07/2018 - 31/12/2019 | (C (2015) 9051) Multi-annual action programme for Montenegro on Employment, Education and Social policies | Audit Authority of Montenegro | MoE / PIU | June – December 2019 | ICFR 1 ICFR 3 | a)Strengthening internal audit capacities; b)IT policy – Back up of data and trainings. | / | / | Open Open |
| 12/07/2018 - 31/12/2019 | (C (2015) 9051) Multi-annual action programme for Montenegro on Employment, Education and Social policies | Audit Authority of Montenegro | MoS / PIU | June – December 2019 | ICFR 1 ICFR 3 | a)Strengthening internal audit capacities; b)IT policy – Back up of data and trainings. | / | / | Open Open |
| 12/07/2018 - 31/12/2019 | (C (2015) 9051) Multi-annual action programme for Montenegro on Employment, Education and Social policies | Audit Authority of Montenegro | MHMR / PIU | June – December 2019 | ICFR 1 ICFR 3 | a)Staffing and trainings; b)Strengthening internal audit capacities; c)IT policy – Back up of data and trainings. | / | / | Open Open Open |
| 12/07/2018 - 31/12/2019 | (C (2015) 9051) Multi-annual action programme for Montenegro on Employment, Education and Social policies | Audit Authority of Montenegro | NIPAC Office | June – December 2019 | ICFR 1 ICFR 5 | a)Strengthening internal audit capacities; b)IT policy – Back up of data and trainings; c)Inadequate and incomplete monitoring and reporting at sectoral and action level. | / | / | Open Open Open |

Table 1

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

Considering the requirements of the IPA regulations and Framework Agreement, the AA used a risk based audit approach for system audits.

The selection of bodies and ICFRs which have been covered by system audits was done in line with methodology set out in AA's MoP.

Risk assessment was performed at the level of the bodies participating in the management and implementation of SOPEES. For the purpose of detailed defining of the scope of audit, in the planning phase we performed a detailed risk assessment to determine the assessment criteria for each ICFR. Based on gathered documentation, risks were identified and assessed at the level of each ICFR, i.e. assessment criteria in every single authority/body.

4.4. Details of the audits carried out

4.4.1. Description of the principal findings and the conclusions drawn from the audit work for the MCSs and their functioning, including the sufficiency of management checks, accreditation procedures and audit trail, adequate separation of functions and compliance with Union requirements and policies

During 2019 system audits have been conducted in all IPA bodies which constitute MCSS for SOPEES and have been rated according to all assessment criteria per each ICFR that were included by audits.

After the system audits have been completed, we conducted a quantitative and qualitative analysis of the results of the implemented activities. We evaluated the assessment criteria for each ICFR and afterwards drawn a conclusion by ICFR. Based upon the results of the categorisation of each ICFR we reached conclusion by body and then made the overall conclusion on the MCSS of the programme.

When assessing the system, the categories defined in the Guidelines on a common methodology for assessing the management and control systems in the Member States have been applied and the evaluation of the MCSS is expressed within one of the four categories as follows:

- Works well. No or only minor improvement(s) are needed (1);
- Works, but some improvement(s) are needed (2);
- Works partially; substantial improvement(s) are needed (3);
- Essentially does not work (4).

In the following table (Table 2) are presented results of evaluation for all audited ICFR/assessment criteria in each body.

| ICFR | AUDITEE | NAO / NASO | NF | CFCU | PWA | MLSW | MoE | MoS | MHMR | NIPAC Office | TOTAL per ICFR |
|---|----------------|---------------------------|-----------|-------------|------------|-------------|------------|------------|-------------|-------------------------|---------------------------|
| 1(a) Ethics and integrity policies | | 1 | 1 | 1 | 1 | 1 | 2 | 1 | 1 | 1 | 1 |
| 1(b) Supervision by management of tasks delegated to subordinates | | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| 1(c) Establishment of structures, reporting lines and authorities and responsibilities | | 1 | 1 | 1 | 1 | 1 | 2 | 1 | 2 | 1 | 2 |
| 1(d) Staff planning, recruitment, retention, training and appraisal | | 2*1 | 2* | 2 | 2 | 2* | 2* | 2* | 2 | 2* | 2 |
| 1(e) Accountability for allocated tasks and responsibilities | | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| ICFR 1 | | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| 3(a) Selection and development of control activities | | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | / | 1 |
| 3(b) Security control activities | | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | / | 2 |
| 3(c) Policies and procedures related to control activities | | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | / | 1 |
| ICFR 3 | | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | / | 2 |
| 4(a) Information to support functioning of internal controls | | 1 | 1 | / | / | / | / | / | / | / | 1 |
| 4(b) Internal communication | | 1 | 1 | / | / | / | / | / | / | / | 1 |
| 4(c) External communication | | 1 | 1 | / | / | / | / | / | / | / | 1 |
| 4(d) Assessment, recording and communication of internal control deficiencies | | 1 | 1 | / | / | / | / | / | / | / | 1 |
| ICFR 4 | | 1 | 1 | / | / | / | / | / | / | / | 1 |
| 5(a) On-going and specific monitoring | | 1 | / | / | / | / | / | / | / | 2 | 2 |
| 5(b) Assessment, recording and communication of internal control deficiencies | | 1 | / | / | / | / | / | / | / | 1 | 1 |
| ICFR 5 | | 1 | / | / | / | / | / | / | / | 2 | 2 |
| TOTAL per body: | | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |

Table 2

¹ * There were no deficiencies in IPA body and conclusion is caused exclusively by finding “Strengthening internal audit capacities”

Further below we outline the description of the most important findings identified and conclusions reached through audit as well as recommendations provided for correcting the findings.

Principal findings identified in the particular ICFR are as follows:

ICFR 1 – CONTROL ENVIRONMENT

➤ Finding No 1: Staffing and employees' turnover in CFCU

According to the Rulebook on internal organization and systematization of the Ministry of Finance, as well as according to WLA for 2019, 37 work posts are envisaged within the CFCU out of which 9 in Finance and Accounting Division.

During the audit performed, based on insight into submitted documentation and interviews with CFCU staff, we determined the following:

- Technical assistance projects implemented in the past period had direct influence and impact on all employees and provided them with the possibility to raise awareness and gain experiences from countries already implemented stages and processes commenced in Montenegro. A number of trainings, seminars, study visits, workshops have been organised aiming to upgrade professional knowledge and the opportunities for continuing professional development of staff in all IPA bodies. Also, a significant progress is being made towards solving issues regarding retention and motivation policy due to fact that Decision on top-up of salaries for IPA positions was adopted by Government of Montenegro in March 2019, as a part of a retention policy which aims at ensuring the retention of staff in IPA Body and promoting their effectiveness.
- However, we identified a significant outflow of experienced and trained staff in CFCU. Based on insight into staff overviews it is evident that during the last year certain number of employees left CFCU. For example Head of Finance and Accounting Division, three Financial Controllers, one Quality Assurance Specialist and Accountant left CFCU. Bearing in mind that the total number of employees in CFCU during this period was between 27 and 33, we consider that previously mentioned staff turnover is significant because it presents around 20% of total number of employees. Moreover, the core problem with staff turnover is related to Finance and Accounting Division which is of the utmost importance in the following period taking into account the functions and responsibilities of this Division (verifying that the expenditures incurred, paid and declared to the NAO comply with applicable Union and national law, the programme, the conditions for support of the action and the conditions of the contract, the goods or services have been delivered, and the payment claims by the recipient are correct;; making payments to, and recovery from, the recipients of IPA II assistance; etc.). Also, the work post of Head of Finance and Accounting Division is currently vacant, i.e. the Head of CFCU gave "Written Authorization for Appointment" to Financial controller to act as Head of Finance and Accounting Division until the formal employment of new head of this Division. We noted that this "acting head" situation lasts until April 2019.
- At the beginning of this system audit the situation in Finance and Accounting Division was the following: five of nine work posts were filled, out of which two Financial Controllers on permanent basis while two FC and Accountant were engaged by contracts which have a temporary character. We identified this situation as more risky and during the performance

of system audit we discussed with auditee on this issue. In meantime CFCU has undertaken certain measures in order to mitigate the risk of lack the employees and has engaged additional staff. However, as this new staff are not employed for an indefinite period and are not fully skilled to perform required tasks, it cannot be considered as a permanent solution (based on the latest staff overview, 3 individuals in the Financial division are employed for an indefinite period and 5 temporary). Therefore, it is needed to employ the employees in accordance with the Rulebook on internal organization and systematization of the Ministry of Finance, provide adequate trainings to newly engaged staff and this way ensure that Finance and Accounting Division can perform its functions and tasks in full capacity.

Recommendation:

CFCU should tackle the issue of employee turnover. Detailed analysis should be done to discover the main reasons of the turnover.

In order to ensure effective functioning of the Finance and Accounting Division, we recommend to CFCU to fill the vacancy of the head of the Division as well as vacant work posts in accordance with the Rulebook on internal organization and systematization of the Ministry of Finance and needs expressed in Work Load Analysis.

Also, we recommend organizing appropriate education and trainings for newly engaged staff in order to train them and enable to perform assigned tasks in the best way.

➤ ***Finding No 2: Understaffing and employees' turnover in PWA***

Employees are the most significant factor of the management and control system. Timely and effective project implementation depends on the assurance of a sufficient number of employees with the required experience and knowledge.

According to the WLA for 2019 (last updated in May 2019), 39 work posts are envisaged and needed within the PWA for implementing IPA activities.

During the audit performed, based on insight into enclosed documentation and interviews with PWA staff, we determined the following:

A significant outflow of experienced and trained staff in PWA has been identified. Based on insight into staff overviews it is evident that during the 2018 it was a significant employee fluctuation and leaves which was the subject of reservation in Annual Management Declaration for 2018.

During 2019, PWA has undertaken certain measures in order to mitigate the risk of lack the employees and has engaged additional staff. However, as this new staff are not employed for an indefinite period and are not fully skilled to perform required tasks, it cannot be considered as a permanent solution. In the period of performing this system audit the total number of employees in Implementing Agency Public Works Administration was 31 out of which 16 on a permanent basis and 15 were engaged by contracts which have a temporary character.

Due to fact that almost 50% of current staff are engaged on a temporary basis and taking into account the needs expressed in WLA for 2019 and draft WLA for 2020, it is needed to employ staff in accordance with the Rulebook on internal organization and systematization of the Public Works Administration and ensure that Implementing Agency can perform its functions and tasks in full capacity.

Recommendation:

PWA should tackle the issue of employee turnover. Detailed analysis should be done to discover the main reasons of the turnover. A retention policy is essential to retain employees business, particularly the staff of key positions/functions, but also to retain good quality and overloaded staff.

In order to ensure effective functioning of the Implementing Agency, we recommend to PWA to fill vacant work posts in accordance with the Rulebook on internal organization and systematization of the Public Works Administration and needs expressed in Work Load Analysis.

Also, we recommend organizing appropriate education and trainings for newly engaged staff in order to train them and enable to perform assigned tasks in the best way.

➤ ***Finding No 3: Staffing and trainings in MHMR/PIU***

According to the Rulebook on internal organization and systematization of the Ministry for Human and Minority Rights, in Department for European integration, programming and implementing of EU funds 4 work posts are foreseen. According to the WLA for 2019, 3 employees in PIU are needed.

Based on audit performed, insight into enclosed documentation and interviews with PIU staff, we determined that only one staff member (SPO) is engaged on a permanent basis, i.e. has a contract for indefinite period. Other two employees (Implementation Manager and Programming Manager) are engaged by contracts which have a temporary character. Moreover, Programming Manager has work contract in Department for cooperation with Religious communities although the Project Implementation Unit in Ministry for Human and Minority Rights is Department for European integration, programming and implementing of EU funds. As two staff members are employed on a temporary basis it cannot be considered as a permanent solution and it is needed to employ the employees in accordance with the Rulebook on internal organization and systematization of the Ministry for Human and Minority Rights.

Bearing in mind that this PIU was not part of operating structure in the previous programming period (2007-2013) and that staff members do not have previous expiriance in implementation of IPA projects, it is needed to provide adequate trainings for employees in PIU in order to ensure adequate quality of staff to reach the objectives.

Recommendation:

In order to ensure effective functioning of the PIU, we recommend to MHMR to fill work posts in accordance with the Rulebook on internal organization and systematization of the Ministry for Human and Minority Rights and needs expressed in Work Load Analysis.

Also, we recommend organizing appropriate education and trainings for staff in order to train them and enable to perform assigned tasks in the best way.

➤ ***Finding No 4: Strengthening internal audit capacities***

According to the Law on management and internal controls in public sector, the Internal Audit Department cannot have less than 3 internal auditors with the Head of the Internal Audit Department.

Auditing the function of IAD in all IPA bodies we found that number of staff is not in line with the number of staff envisaged in the Rulebooks of Internal organization and systematization.

For example, according to the valid Rulebook of Internal organization and systematization of

Ministry of Finance, seven job positions are foreseen in the Internal Audit Department and according to job descriptions all of them are in charge of auditing EU funds. However, five job positions are filled while two job positions are vacant. Additionally, Ministry of Finance has signed 17 Agreements on the entrustment of internal audit work. By signing these Agreements IAD is committed to perform internal audit in the institutions with which agreements have been signed, which significantly increases their work load. The WLA has shown the necessity for additional staff. IAD conducted audits of DMS-NAO SO and CFCU during 2018 and issued audit reports.

The Rulebook of internal organization and systematization of the Ministry of Labour and Social Welfare foresees 4 job positions in the Internal Audit Department out of which 2 are vacant. PIU in MLSW was a subject of internal audit in 2018.

Also, the Rulebook of internal organization and systematization of the Ministry of Education foresees 4 job positions in total in the Internal Audit Department. It is determined that 3 internal auditors, Head of Internal Audit Department, Superior Internal Auditor and Junior internal auditor, are employed. Job position of Senior Internal Auditor is vacant. According to the job descriptions in Rulebook "Senior Internal Auditor" and "Junior Internal Auditor" are in charge of auditing EU funds. So Internal Audit Department currently can not perform the audit activities relating EU Funds with full capacities.

The Rulebook of internal organization and systematization of the Public Works Administration foresees 4 job positions in the Internal Audit Department and all are vacant. We noted that PWA was subject to audit of IAD of Ministry of Sustainable Development and Tourism, as this IPA body in the previous period (before 2019) was a part of mentioned ministry.

When it comes to the Ministry of Science, it is determined that this Ministry does not have internal audit department but internal audit tasks are entrusted to IAD of Ministry of finance. This PIU was not audited by IAD during 2018. Ministry of Human and Minority Rights also does not have internal audit department and internal audit tasks are entrusted to IAD of Ministry of Labour and Social Welfare. In 2018 this PIU was not subject to any internal audit. Until now, NIPAC office was not subject to any internal audit engagement.

Lack of employees in the Internal Audit Departments, who are in charge of auditing EU funds may affect on performance of tasks as well as quality of conducting the audits.

Recommendation:

In order to ensure performing internal audit in IPA bodies on a regular basis, we recommend strengthening internal audit capacities by filling vacant work posts in the Rulebooks of Internal organization and systematization and also respecting the needs expressed in the WLA.

ICFR 3 – CONTROL ACTIVITIES

➤ Finding No 5: IT policy – Back up of data and trainings

According to the Manual of Procedures (V2.0), chapter IT policy, section Storage of data and back-up, inter alia the following is prescribed:

- All important data is backed up on a daily basis;
- The IPA Body staff shall always store data in the file/applications server (servers);
- The User Coordinator shall ensure that backup information is maintained according to backup policy;

- The IT Coordinator shall ensure that all key servers and systems have documented backup procedures. These procedures must be detailed and be essentially a step-by-step guide to how the task is completed for the various servers and data are backed up;
- All storage media should be labelled clearly and stored in a secured, lockable fireproof safe or cabinet;
- The IT Coordinator shall ensure that there are detailed restore procedures in place for each major system backed up. These procedures must be detailed and be essentially a step-by-step guide to how the task is completed for the various servers and data are restored in the event of a problem occurring e.g. a server/disk crash or lost/corrupted data.

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

Also, we have concluded that employees from IPA bodies did not have enough trainings related to IT security policy. In the period under review insignificant number of employees attended few trainings related to cyber security and computer data protection. Bearing in mind the importance of IT security, using file servers, having adequate and secure data storage, employees from IPA bodies should have more trainings with regard to this policy.

Recommendation:

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

ICFR 5 – MONITORING OF INTERNAL CONTROL FRAMEWORK

➤ ***Finding No 6: Inadequate and incomplete monitoring and reporting at sectoral and action level***

According to IPA II Implementing Regulation No 447/2014, Article 4, the National IPA Coordinator (NIPAC) shall be the main counterpart of the European Commission for the overall process of strategic planning, coordination of programming, monitoring of implementation, evaluation and reporting of IPA II assistance. Therefore, in line with the IPA II IR, the responsibility for the monitoring of implementation belongs to the NIPAC, who has to set up an adequate monitoring framework under the OS.

“The main role in reporting at programme level is with NIPAC office. Annual Report on Implementation of IPA II Assistance shall be drawn up under the coordination of NIPAC office with input from the bodies of the operating structures and related monitoring reports.

When it comes to Monitoring and Reporting at Sectoral Level, the Semi-annual Action Monitoring Reports are prepared by NIPAC Office based on the inputs of the quarterly reports.

Monitoring and Reporting at Action Level includes preparation of Quarterly Action Monitoring

Reports which shall be drawn up under the coordination of NIPAC office and prepared by PIUs/Lead SPOs. QAMRs shall be submitted to the NIPAC office, quarterly during the year, with the following cut-off dates: 31st March, 30th June, 30th September and 31st December. QAMR shall be prepared and submitted to NIPAC office 10 working days after the cut-off dates.

For proper coordination of the reporting requirements, NIPAC Office shall lead the process of preparing of all monitoring reports. In order to ensure timely preparation and high quality of reports, the NIPAC office shall:

- Sets a time-schedule for preparing the annual reports;
- Issue guidelines and instructions to SPOs/PIUs regarding their input for annual reports at Action level;
- Ensures for the quality control of the input, submitted by the SPOs/PIUs;
- Monitor the time-schedule for preparation of annual reports, approval and submission.”

Based on documentation obtained, desk checks performed and interviews conducted we determined that monitoring activities regarding IPA II 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES) is not at satisfied level and is not in accordance with prescribed procedures.

Namely, reviewing documentation related to preparation of Annual Report on Implementation of IPA II Assistance in 2018 we determined that this report was issued in time but was not based on information deriving from Semi-Annual Sector Monitoring Report. Actually, during the on the spot check at the NIPAC Office we were not presented any SASMR because this type of monitoring document has not been prepared and issued in the previous period. Due to this fact we consider that monitoring and reporting at sectoral level has not been implemented in line with prescribed procedures.

Also, we determined that Monitoring and Reporting at Action Level was not at the satisfied level in the previous period. On the basis of enclosed documentation we determined that only one PIU (MLSW) respected procedures and responsibility of drawing up Quarterly Action Monitoring Reports (QAMR) for each period of implementation while one PIU (MoS) partially fulfilled this obligation. The rest of PIUs did not respect obligation preparing and submitting QAMRs to NIPAC Office. Therefore, we consider that monitoring and reporting at action level has not been implemented in line with procedures.

Therefore, monitoring and reporting at the sector and action level were not satisfactory in the previous period, i.e. were not carried out in line with prescribed procedures. In our opinion this may lead to potential risk that Annual Report on Implementation of IPA II assistance could be prepared on the basis of inadequate and incomplete information about SOPEES.

Recommendation:

We recommend to NIPAC Office carrying out proper coordination and taking all relevant and necessary activities, under its responsibility, in order to ensure that Monitoring and Reporting at Sectoral and Action Level are satisfactory and in accordance with prescribed procedures and IPA regulations. This way the potential risk of preparing and issuing Annual Report on Implementation of IPA II assistance on the basis of inadequate and incomplete information about SOPEES will be mitigated.

4.4.2. Details of whether any problems identified were considered to be of a systemic character

During the conducted system audits in 2019, no findings were found with systemic character.

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

Not applicable.

4.6. Level of assurance obtained following the system audits (low/average/high) and justification

On the basis of work performed, we gained reasonable assurance that the MCSS established for implementation of the IPA II 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES) works, but some improvements are needed.

Overall conclusion for MCSS, based on the results of this year system audit and professional judgement is presented in table below, per each ICFR:

| INTENAL CONTROL FRAMEWORK | Works well. No or only minor improvement(s) are needed | Works, but some improvement(s) are needed | Works partially; substantial improvement(s) are needed | Essentially does not work |
|---|--|---|--|---------------------------|
| 1. CONTROL ENVIRONMENT | | X | | |
| 2. RISK MANAGEMENT | N/A | N/A | N/A | N/A |
| 3. CONTROL ACTIVITIES | | X | | |
| 4. INFORMATION AND COMMUNICATION | X | | | |
| 5. MONITORING OF INTERNAL CONTROL FRAMEWORK | | X | | |
| Overall conclusion | Works, but some improvements are needed | | | |

Table 3

Bearing in mind aforementioned we consider that level of assurance is **average**.

5. AUDITS OF SAMPLES OF TRANSACTIONS

Not applicable.

Bearing in mind that during 2018 and 2019 NAO did not declared any expenditure to EC, AA was not in a position to perform audit of operations/transactions.

5.1. Authorities/bodies that carried out the sample audits, including the audit authority

Not applicable.

5.2. Description of the sampling methodology applied and information whether the methodology is in accordance with the audit strategy

Not applicable.

5.3. Indication of the parameters used for statistical sampling, materiality level, the confidence level, the expected error rate applied, calculation of the required sample and the interval, sampling unit, number of sampling units in the population, number of sampling units actually audited

Not applicable.

5.4. Reconciliation of the expenditure declared to the Commission in the financial year to the sampled expenditure. Reconciling items include negative items where financial corrections have been made in the financial year, as well as differences between amounts declared in euro and amounts in national currency, where relevant

Not applicable.

5.5. Where there are negative items, confirmation that they have been treated as a separate population

Not applicable.

5.6. In case of the use of non-statistical sampling, indicate the reasons for using the method in line with Article 12 (2) of Commission Implementing Regulation (EU) No 447/2014, the percentage of actions/operations / expenditure covered through audits, the steps taken to ensure randomness of the sample (and its representativeness) and to ensure a sufficient size of the sample enabling the audit authority to draw up a valid audit opinion. A projected error rate is calculated also in case of non-statistical sampling

Not applicable.

- 5.7. Summary table (see below), broken down where applicable by programme indicating the eligible expenditure declared to the Commission during the year, the amount of expenditure audited, and the percentage of expenditure audited in relation to total eligible expenditure declared to the Commission for the last year, as well as the total number of sampling units in the population and the number of sampling units actually audited for the random sample. Information relating to the random statistical sample is distinguished from that related to other samples if applicable (e.g. risk-based complementary samples)**

Not applicable.

- 5.8. Analysis of the principal results of the audits (sample items selected and audited, together with the respective amount and types of error by operation) as well as the nature of errors found, root causes and corrective measures proposed, including mitigating these errors in the future**

Not applicable.

- 5.9. Details of the most likely error rate (total error rate) and, in case of statistical sampling method, the upper limit of the error rate as a result of the audits of operations, and the amount of irregular expenditure detected and the error rate resulting from the random sample audited**

Not applicable.

- 5.10. Compare the total error rate with the set materiality level, in order to ascertain if the population is materially misstated or not. If so, analyse the significance of the total error rate for the audit opinion and report the recommended corrective measures**

Not applicable.

- 5.11. Corrections relating to the current year implemented by the operating structure/management structure before submitting the final declaration of expenditure and financial statements to the Commission, and resulting from the audits of operations, including flat rate or extrapolated corrections.**

Not applicable.

- 5.12. Residual total error rate following the implementation of the above-mentioned corrections and significance for the audit opinion.**

Not applicable.

5.13. Information on the results of the audit of the complementary (e.g. risk based) sample, if any.

Not applicable.

5.14. Information on the follow-up of irregularities, including revision of previously reported residual error rates, as a result of all subsequent corrective actions

Not applicable.

5.15. Details of whether any problems identified were considered to be systemic in nature, and the measures taken, including a quantification of the irregular expenditure and any related financial corrections

Not applicable.

5.16. Description (where applicable) of specific deficiencies or irregularities related with financial instruments. Where applicable, indication of the sample error rate concerning the audited financial instruments

Not applicable.

5.17. Analysis of the principal results of the audits of negative items, including conclusions as to whether the negative items audited correspond to the decisions of the country or of the Commission, and reconcile with the amounts included in the accounts on amounts withdrawn and recovered during the year and amounts to be recovered at the end of the year

Not applicable.

5.18. Conclusions drawn from the results of the audits with regard to the effectiveness of the management and control system

Not applicable.

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

6.1. Indication of the authorities/bodies that have carried out audits of the annual financial reports or statements/annual accounts

Audit of accounts was conducted by audit team of Audit Authority, Department for audit of the programmes – Building institutions and economic and regional development, employment, social policies, education, promotion of gender equality and development of human capacities.

6.2. Description of audit approach used to verify the elements of the annual financial reports or statements/annual accounts defined in Article 12(2) and Article 23(1)(b) of Commission Implementing Regulation (EU) No 447/2014

Audit of accounts has been carried out in compliance with the Audit Authority Manual of procedures, Programme Audit Strategy 2019-2021, Framework Agreement and relevant Financing Agreement.

During the audit AA took into consideration the results of the system audits. Moreover, in accordance with the EGESIF Guidance 15-0016-04 of 03/12/2018, the AA performed additional verifications on the accounts in order to provide an opinion whether the accounts give a true and fair view. AA also checked whether the accounts have been prepared in accordance with the templates set out in Annex IV of Financing Agreement.

The Audit Authority, on the basis of the Annual Financial Report as well as all required documentation, provided to it by the NF and IAs verified that:

- the total amounts submitted in the Annual Financial Report (contracted and addendums signed, amounts disbursed, total costs recognized, amounts of open pre-financing, invoices received, payments made and recoveries requested, and the relevant percentages based on appropriate total amounts submitted to the Commission in accordance with the Annex IV of the Financing Agreements) correspond to the amounts entered in the accounting systems of NF and IAs;
- the total amounts submitted in the Annual Financial Report correspond to the amounts in the electronic database for each contract;
- the bank accounts statement corresponds to the year-end balances in the accounting systems of the NF;
- Reconciliation of the accounting records and cash flow statements of the NF and IAs.

Audit verifications were performed taking into account information provided by the NF in the Year-end cut-off report, Financial forecasts and Forecast of likely payment requests, as well as relevant supporting documents for the SOPEES program for years 2015-2017, submitted to the Commission in accordance with the DG NEAR Information letter on preparation annual accounts, No 14-227/1 on 14th January 2020.

Audit was performed using the Checklist for Audit of accounts (Annex 4c of the AA MoP). Comparison and testing data was carried out for Annual Financial Report – (Annexes 4a and 4b of Financial Agreements, IAs Requests for Funds, IAs Financial Reports Overview, IAs payment orders, IA Cash flow statements, Bank statements and IAs Accounting records in the General ledger. Furthermore, verifications on the amounts were carried out on the following evidence: Year-end cut-off reports, Bank statements, accounting records in the General Ledgers, Financial reports of NF and CFCU for 2019, Financial forecasts and Forecast of likely payment requests, and Payment book of CFCU.

6.3. Indication of the conclusions drawn from the results of the audits in regard to the completeness, accuracy and veracity of the declaration of expenditure and financial statements, including an indication on the financial corrections made and reflected in the declaration of expenditure and financial statements as follow-up to the results of the audit on transactions/operations

Audit conclusion is based on the analysis of procedures, information, data, documents, reports,

adequately documented in check lists and working papers related to the audit of accounts.

Based on the above mentioned, we conclude that the annual accounts (financial reports and statements) submitted to the European Commission for financial year 2019 for SOPEES are complete, accurate and veracious in all material aspects.

6.4. Indication of whether any problems identified were considered to be systemic in nature, and the measures taken

No problems considered to be systemic in nature were identified.

7. FOLLOW-UP OF PREVIOUS YEARS' AUDIT ACTIVITY

Not applicable.

During 2019 the first system audits had been carried out regarding SOPEES. There were no system audits and audits of transactions/operations from earlier years.

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

Not applicable.

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

Not applicable.

8. OTHER INFORMATION

8.1. Information on reported fraud and suspicions of fraud, together with measures taken

Not applicable.

8.2. Subsequent events occurred after the submission of the declaration of expenditure and financial statements and before the transmission of the annual activity report

Not applicable.

8.3. Any other information that the audit authority considers relevant and important to communicate to the Commission

Not applicable.

9. OVERALL LEVEL OF ASSURANCE

9.1. Explanation on how the overall level of assurance on the proper functioning of the management and control system is obtained from the combination of the results of the system audits and audits of operations

Bearing in mind that no expenditure was declared to EC and the fact that AA was not in a position to carry out an audit of operations, the assurance on the proper functioning of the management and control system is based on the results of the system audit (system assessment – please see section 4 above).

As a results of the system audit, the management, control and supervision systems established for IPA II 2015-2017 SOPEES is assessed as works, but some improvement(s) are needed. Therefore, it is appropriate to issue an unqualified opinion on the proper functioning of the MCSS.

The assurance on the accounts is based on the results of the audit of accounts as described in section 6.3 of this AAAR. Therefore, as it is concluded that the annual accounts (financial reports and statements) are complete, accurate and veracious in all material aspects, it is appropriate to issue an unqualified opinion on the reliability of the annual financial reports or statements/annual accounts.

9.2. Analysis of significance of total error rate in a case when it is above the materiality level

Not applicable.

9.3. Assessment of the corrective action necessary both from a system and financial perspective

Not applicable.

9.4. Assessment of any relevant subsequent adjustments made and corrective actions taken

Not applicable.

10.TABLE FOR DECLARED EXPENDITURE AND SAMPLE AUDITS

| | | | 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(2015)9051) | Multi-annual action programme for Montenegro on Employment, Education and Social policies | / | / | / | / | / | / | / | / | / | / | / | / |
| | | | | | | | | | | | | | | |

**During 2018 and 2019 no expenditure was declared to EC therefore audit of transactions/operations was not carried out.*