



**MONTENEGRO
AUDIT AUTHORITY**

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**ANNUAL AUDIT ACTIVITY REPORT
OF THE AUDIT AUTHORITY FOR**

**IPA II 2014-2020 CROSS-BORDER COOPERATION PROGRAMME
“MONTENEGRO – ALBANIA”**

**FOR THE PERIOD
1st JANUARY 2019 – 31st DECEMBER 2019**

Podgorica, March 2020

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List of abbreviation

AA	Audit Authority of Montenegro
AAAR	Annual Audit Activity Report
AAO	Annual Audit Opinion
AMD	Annual Management Declaration
AMG	Annual Management Guarantee
AWP	Annual Work Plan
CA	Contracting Authority
CAAT	Computer Assisted Auditing Techniques
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 2019.

In the period May–October 2019 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 audits 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 2019-2021 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:

- The National Authorizing Officer and Management Structure composed of National Fund and Support Office for the NAO
- Contracting Authority (CA)
- HOS Office
- 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: Risk Management, Control Activities;
- NAO Support Office: Risk Management, Control Activities, Monitoring of Internal Control Framework;
- CA/CFCU: Control Environment, Risk Management, Control Activities;
- HOS Office: Risk Management, Control Activities, Monitoring of Internal Control Framework;

Control Body: verified through the follow up of previous years findings taking into consideration the fact that at preliminary meeting with IPA bodies we were informed that in period under review CFCU performed control of expenditure of Albanian beneficiaries instead the Control Body in Albania. Since the other processes in CB were covered by system audit performed in 2017 and 2018, we considered that additional audit, except follow up, would not be necessary.

During the February 2020 the Audit Authority performed follow-up of the findings and recommendations given in the Final reports of performed system audits in period 2017-2019. Follow-up was performed as separate activity before issuing the AAAR and the AAO.

In the period December 2019-January 2020 Audit Authority performed audit of operation on the sample of operations for which the expenditures were declared to the European Commission (EC) during 2019.

During the reference year (2019), one Declaration of Expenditure was sent to the European Commission (EC) regarding 2014 financial allocation and one Declaration of Expenditure regarding 2015 financial allocation. As for financial allocation for 2016, 2017 and 2018 no contracts were signed and no expenditure were declared during the year 2019. The population for audit of operations consisted of operations for which the cost recognized by the IA/CFCU has been declared to the EC.

Regarding 2014 allocation recognised cost has been declared for three operations in the total amount of 85.414,93 € out of which 72.581,18 € is EU part and 12.833,75 € is from other sources.

Regarding 2015 allocation recognised cost has been declared for four operations in the total amount of 117.525,23 € out of which 99.883,60 € is EU part and 17.642,46 € is from other sources.

Non-statistical sampling was applied for the selection of sample of operations as applicable for small populations. Three operations were selected in the sample amounting to 70.443,23 €. Sampled operations are as follow:

- CFCU/MNE/050 - Disasters do not know borders;
- CFCU/MNE/051 - Preserving Cultural Landscape of Albania and Montenegro and
- CFCU/MNE/053 - Youth Montenegrins and Albanians in Raspberry Crops

At the end of February and beginning of March 2020 Audit Authority performed audit of the annual financial reports for the year 2019 and assessment of the Management declaration for the respective Programme.

NAO submitted Annual financial report for 2019 on 13th February 2020. During the audit AA verified whether the Annual Financial Reports/Financial Statements give a true and fair view as well as the completeness, accuracy and veracity of the annual financial reports or statements and the underlying annual accounts. The audit of accounts in respect of accounting year 2019 has been carried out in the second half of February and beginning of March 2020.

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), the Cross-Border Cooperation Action Programme "Montenegro-Albania" for the years 2015-2017 (2015/038-158, 2016/038-174 and 2017/038-175) and Cross-Border Cooperation Action Programme "Montenegro-Albania" for the years 2018-2020 (2018/041-468) 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 are 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 are 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 final 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, deficiencies found in the management, control and supervision systems and 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 and audit of operation performed during 2019, result of follow up of the findings and recommendations, results of audit of annual financial reports for 2019 and assessed the consistency of the management declaration with regard to performed audit work.

Based on the available information, final audit reports and follow up activities the Audit Authority prepares Annual Audit Activity 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

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. The following changes occurred in 2019:

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

– Head of Division for Coordination of EU Assistance/Head of NIPAC Office

Mr Bojan Vujović, former independent advisor in the Division for Coordination of EU Assistance, has been appointed to perform tasks of the Head of Division for Coordination of EU Assistance /Head of NIPAC Office, on 11th February 2019.

NAO informed European Commission and Audit Authority on this personal change on 26th June 2019. (Letter No: 01-9872).

– Head of Division for System Supervision /Head of NAO Support Office

Mr Velibor Damjanović, former System Supervisor Officer in the Division for System Supervision within Directorate for Management Structure, has been appointed to perform tasks of the Head of Division for System Supervision /Head of NAO Support Office, on 1st April 2019.

NAO informed European Commission and Audit Authority on this personal change on 26th June 2019. (Letter No: 01-9872).

– Head of Operating Structure

On the session held on 30th May 2019, the Government of Montenegro adopted a Conclusion on termination of engagement of Mr. Vučić Četković on the position of Head of Operating Structure.

On the basis of the valid substitution plan in force, Ms Tatjana Bošković (Head of HOS Office) is performing tasks delegated to HOS.

NAO informed European Commission and Audit Authority on this personal change on 26th June 2019. (Letter No: 01-9872).

– Bilateral Arrangement

On the session held on 6th June 2019 Government of Montenegro adopted Information on amendments to the Bilateral Arrangement between Montenegro and Albania concerning the IPA II 2014 – 2020 Cross-Border Cooperation Programme “Montenegro – Albania”. Amendments were entered into force on 17th June 2019.

The amendments to the Bilateral Agreement relate to organizational changes in the state institutions in Montenegro and Albania where the bodies of the Operating Structure are located, which we reported in the previous Annual Report, as well as to certain legal and technical corrections in the text of the document itself.

– **Manual of procedures (Version 2.0)**

Manual of procedures (Version 2.0) was approved by NAO on 1st July 2019. Information on adoption of the new version of MoP was submitted through the NAO Progress Report sent to EC and AA on 19th July 2019.

2.1.2 Changes in the MCS since last Annual Audit Activity Report in respect to Albania

During 2019, the following changes occurred in the Albanian Operating structure:

– **NIPAC**

By Order no. 191 from 2nd April 2019 Mr Sokol Dedja is appointed as the National IPA Coordinator (NIPAC). This appointment is communicated to EC on 16th April 2019.

– **Head of CFCU/Control Body**

On 30th July 2019 Mrs. Veronika Korkaj is appointed as the General Director of CFCU/Control Body by Official letter No. 4442/2. European Commission was informed about this change by Letter No. 15865 from 4th September 2019. Montenegrin HOS is informed by sending Official Letter of appointment on 23rd January 2020.

2.2 The dates from which these changes apply, the dates of notification of the changes to the audit authority, as well as the 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 their compliance with Article 7 of Commission Implementing Regulation (EU) No 447/2014.

Changes related to nominations of Head of NIPAC Office, Head of NAO SO and Head of Albanian CFCU/CB 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 implies strengthening of capacity of these IPA Bodies. Amendments of Bilateral Arrangement also have positive impact since the relation between two countries and their roles and responsibilities is more precisely regulated. Changes related to MoP have positive impact bearing in mind that new version has been prepared taking into account AA findings from system audit performed in 2017. Changes of NIPAC in Albania has no impact on functioning of MCSS. As for changes related to termination of HOS engagement, mitigation factor is taken into consideration bearing in mind that Head of the HOS Office temporarily took over the duties of HOS according to Substitution Plan.

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

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 2018. The Audit Strategy was prepared on a tri-annual basis for period 2019-2021 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 No 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 (if closed (or not)
01.01.2019 - 31.12.2019.	IPA II 2014-2020 Cross-Border Cooperation Programme Montenegro-Albania (2014) 9352)	Audit Authority of Montenegro + Go members	1. National Fund 2. NAO Support Office 3. CA/CFCU 4. HOS Office 5. Control Body + Follow up in all bodies within MCSS of the IPA II 2014-2020 CBC Programme Montenegro-Albania	May–October 2019	-1(b) Supervision by management of tasks delegated to subordinates – CFCU; -1(e) Accountability for allocated tasks and responsibilities – CFCU; -2(a) Objective setting – NF, NAO SO, CFCU, HOS Office; -2(b) Risk identification, assessment and response - NF, NAO SO, CFCU, HOS Office; -3(a) Selection and development of control activities - NF, NAO SO, CFCU, HOS Office; -5(a) On-going and specific monitoring –NAO SO, HOS Office; -5(b) Assessment, recording and communication of internal control deficiencies – NAO SO, HOS Office; - Follow up of open findings from previous audits - all bodies within MCSS	<u>Findings related to Montenegro</u> 1. Functioning of Operating Structure - NIPAC, NAO, HOS, CFCU; 2. Audit trail for local travel costs – CFCU; 3. The risk identification – HOS Office 4. Review of the incurred costs in Progress Financial Report - CFCU <u>Findings related to Albania</u> 1. Functioning of Operating Structure – NIPAC, HOS, 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	Audit trail for local travel costs (Finding No. 2) - Controllers approved expenditure for the budget line 2 - Travel, without complete documentation for proving eligibility of expenditure. <u>Measures taken:</u> CFCU resubmitted to Control Body all reports and supporting documentation related to costs of Albanian project partners, already approved by CFCU, so that the control body could perform re-check. Re-performance of expenditure eligibility check is on-going. CFCU will made additional check by the end of implementation of contracts, i.e. at the latest by final reports for each contract and made final decision on eligibility of expenditure		<u>Montenegro</u> OPEN findings no. 1,2 and 4 CLOSED finding no. 3 <u>Albania</u> OPEN findings no. 1 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" and all collected information and documentation, as well as in accordance with adopted Audit Strategy for period 2019-2021 and results of performed risk assessment, the following bodies being part of the management, control and supervision system and key requirements were covered by the system audit:

National Authorizing Officer (NAO) and Management Structure (MS) composed of National Fund (NF) and Support Office for the NAO (NAOSO):

- 2(a) Objective setting
- 2(b) Risk identification, assessment and response
- 3(a) Selection and development of control activities
- 5(a) On-going and specific monitoring
- 5(b) Assessment, recording and communication of internal control deficiencies

Contracting Authority (CA):

- 1(b) Supervision by management of tasks delegated to subordinates
- 1(e) Accountability for allocated tasks and responsibilities
- 2(a) Objective setting
- 2(b) Risk identification, assessment and response
- 3(a) Selection and development of control activities

HOS Office:

- 2(a) Objective setting
- 2(b) Risk identification, assessment and response
- 3(a) Selection and development of control activities
- 5(a) On-going and specific monitoring
- 5(b) Assessment, recording and communication of internal control deficiencies

Control Body (AL CB)

- verified through the follow up of previous years findings taking into consideration the fact that in period under review CFCU performed control of expenditure of Albanian beneficiaries and that other processes in CB were covered by system audit performed in 2017 and 2018.

Additionally, during our audit we performed follow up of implementation of recommendations related to open findings from previous audits in all bodies within the MCSS.

The system audit encompassed the period from 30th September 2018 to 30th June 2019. The audit was performed in the period from 24th May 2019 until 31st October 2019. The Final Audit Report was issued and submitted to National Authorising Officer, National IPA Coordinator of Montenegro, National IPA Coordinator of Albania, Head of Operating Structure in Montenegro and Head of Operating Structure in Albania on 30th December 2019.

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 2019-2021 the Audit Authority performed a detailed risk assessment to determine the bodies and ICF area which will be covered by system audit. Additionally, in order to define the key requirements within each area which will be encompassed by the appropriate audit activities in particular body, we performed risk assessment at the level of each requirements 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),
- Guidance for Member States on Audit Strategy (Programming period 2014-2020), (EGESIF_14-0011-02 final 27/08/2015),
- Guidance for the Commission and Member States on a common methodology for the assessment of management and control systems (EGESIF_14-0010-FINAL 18/12/2014) and
- Guidance on sampling methods for audit authorities, Programming periods 2007-2013 and 2014-2020 (EGESIF_16-0014-01 20/01/2017).

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 the level of each key requirements. Specific risk factors have been assessed for each body and ICF area. 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 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:

- National Authorizing Officer (NAO) and Management Structure (MS) composed of National Fund (NF) and Support Office for the NAO (NAOSO);
- Contracting Authority (CA);
- HOS Office and
- Control Body (AL CB)¹.

Additionally, in order to define the key requirements within each body and ICFR area we performed risk assessment at the level of each requirement during system audit engagement planning. The following audit areas were examined according to results of risk assessment:

- 1(b) Supervision by management of tasks delegated to subordinates – CFCU;
- 1(e) Accountability for allocated tasks and responsibilities – CFCU;
- 2(a) Objective setting – NF, NAO SO, CFCU, HOS Office;
- 2(b) Risk identification, assessment and response - NF, NAO SO, CFCU, HOS Office;
- 3(a) Selection and development of control activities - NF, NAO SO, CFCU, HOS Office;
- 5(a) On-going and specific monitoring –NAO SO, HOS Office;
- 5(b) Assessment, recording and communication of internal control deficiencies – NAO SO, HOS Office.

¹ Control Body was verified through the follow up of previous years findings taking into consideration the fact that in period under review CFCU performed control of expenditure of Albanian beneficiaries and that other processes in CB were covered by system audit performed in 2017 and 2018.

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 4 findings related to Montenegrin bodies: 2 major, 1 intermediate and 1 minor. After follow up of recommendation performed in February 2020 we have had 2 major and 1 minor finding. One intermediate finding has been closed. In respect to Albanian bodies we identified 1 major finding during the audit which remained at the same priority 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 requirements are given in table below:

IPA Body Audit area	DMS (NF/NAOSO)	CA/CFCU	HOS OFFICE MNE	TOTAL
1(b)	-	1	-	1
1(e)	-	1	-	1
2(a)	1	2	1	2
2(b)	1	2	2	2
3(a)	2	2	2	2
5(a)	2	-	1	2
5(b)	2	-	2	2
TOTAL	2	2	2	2

Our assessment of the MCSS is based on the examination of the functioning of the above mentioned key requirements, as well as on the results of follow up of previous years system audits findings and professional judgement.

Overall conclusion for MCSS is presented in table below, per each body:

Category IPA Body	Works well; only minor improvements are needed	Works, but some improvements are needed	Works partially; substantial improvements are needed	Essentially does not work
DMS (NF/NAOSO)		x		
CA/CFCU		x		
HOS OFFICE MNE		x		
CBC BODY MNE		x		
HOS/ CBC BODY AL		x		
CB AL			x ²	
Overall conclusion	Works, but some improvements are needed			

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.

² Control Body is assessed with 3 due to the fact that it does not perform its main function envisaged by Article 7(5) of Bilateral Arrangement, which is the verification of expenditure incurred by beneficiaries registered in Albania

4.4.1 Principal Findings and recommendations related to MCSS

1. Functioning of Operating Structure

ICF requirement:

3. Control activities

(a) Selection and development of control activities

5. Monitoring of internal control framework

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

Level of priority: *Major*

Body/-ies concerned by the finding: *NIPAC MNE, NAO, HOS MNE, CFCU, NIPAC ALB, HOS ALB, Control Body*

During the System audit, we found out that the CFCU verified and approved the expenditure of the project partners from Albania.

According to Clause 4(3)(b)(x) of Annex A to the Framework Agreement the operating structure shall in accordance with the relevant Articles of this Agreement verify that the expenditure incurred, paid and declared to the NAO complies 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 requests by the recipient are correct.

According to Framework Agreement, Article 76(5) "If the operating structure of the IPA II beneficiary where the contracting authority is located cannot carry out the verifications as set out in Clause 4(3)(b)(x) of Annex A to this Agreement throughout the programme area, the participating countries shall agree on how such management verification functions shall be carried out. The arrangements for conducting such verifications shall be spelled out in the bilateral arrangement referred to in Article 69."

According to Bilateral Arrangement, Article 7(5) in the context of management verification of operations, the Albanian Control Body shall control the expenditure incurred by beneficiaries registered in Albania, particularly with regard to legitimacy and accuracy and in accordance with the applicable rules and procedures. Control Body shall issue confirmation to the Contracting Authority on the eligibility of expenditures. For these tasks, the Control Body will be responsible to the Contracting Authority in line with procedures developed in programme level documents. The Control Body shall also ensure the appropriate audit trail.

Respecting the abovementioned Articles of the Framework Agreement and Bilateral Arrangement, there is no legal basis or formal agreement between the countries on the basis of which the CFCU would verify the costs of Albanian project partners. Furthermore, by controlling the costs of Albanian project partners, the CFCU compromises the eligibility of approved expenditure because it controls costs in a language that is not understood and costs under Albanian national regulations for which there is no adequate training.

This leads to the risk that the expenditure of Albanian project partners is ineligible because they have not been approved by the Albanian Control Body.

Additionally this situation has not been recognized as weakness of internal control system by NIPAC, NAO and HOS nor have any adequate measures been taken to resolve this issue.

The impact of this finding covers all expenditures incurred by Albanian project partners approved by the CFCU.

Recommendation:

We recommend that CFCU require from Control Body to carry out the verification of the expenditure of Albanian project partners for all expenditure verified by CFCU so far and that Control Body perform requested verifications.

For further verification of expenditure, we recommend the verification in accordance with the Bilateral Agreement.

We also recommend greater involvement of NIPAC, NAO and HOS in solving this issue and better communication between two Operating Structure.

Implementation deadline: *Immediately*

Follow up of implementation of recommendation:

Status: *Not implemented*

Level of priority: *Major*

Some progress has been made. On 26th December 2019 Montenegrin NAO submitted official letter to Albanian NAO asking for assistance in resolving issues related to functioning of two Operating Structures.

During January 2020 meeting between two OS was held where it was agreed, among other things, that the Control Body start with verification of the latest financial reports that had already been sent, and inform the CFCU of any requests for additional information or clarifications as well as verify the expenditure of Albanian project partners for all expenditure verified by CFCU so far, prior TO approval of the final report CFCU forwarded to ALB Control Body all reports and supporting documentation related to costs of Albanian project partners, already approved by CFCU, so that Control Body could perform re-check.

Implementation of expenditures verification by Albanian Control Body will be monitored in following period.

2. Audit trail for travel costs

ICF requirement:

3. Control activities

(a) Selection and development of control activities

Level of priority: *Major*

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

Reviewing the First Progress Financial Report for all projects from the sample (CFCU/MNE/048, CFCU/MNE/049, CFCU/MNE/051, CFCU/MNE/052 and CFCU/MNE/055) it has been determined that controllers approved expenditure for the budget line 2 - Travel, without prescribed documentation for eligibility of expenditure.

For expenditure of transportation of the budget lines 2.1 - international travel and 2.2 - local transportation, invoices related to the transport services and statements from the banks for the fuel have been submitted. Evidence (invitation, agenda, list of participants, travel orders, accounting records) which confirms that travel costs are incurred, have not been submitted to the controllers as prescribed in the Guidance on Financial Reporting. However, controllers approved expenditure in the overall/partial

amount. Additionally, it has been observed that based on one Internal order, costs related to travel (fuel) for two participants have been accepted.

Existing procedures for verification of expenditure do not contain detailed instructions (checklists) based on which the controllers perform an adequate verification of expenditure.

Additionally, according to the aforementioned Guidance, the controllers have a possibility to require needed documentation, if it had not been submitted along with the Progress Financial Report related to incurred expenditure, which was not done.

Controllers should not have confirmed eligibility of expenditure without supporting documentation. Eligibility of audited expenditure can be confirmed only by the insight into the original documentation which is at the project partner.

Auditors reviewed 9 items of expenditures of this category and in 5, the same and/or similar problem has been noted, regardless of the controllers who verified expenditure which indicates systemic nature of error.

Accepting the expenditure without adequate audit trail leads to risk of declaring ineligible expenditure.

Recommendation:

We recommend that controllers during the conduct of administrative control do not accept any expenditure for which they do not have adequate audit trail, prescribed by Guidance for Financial Reporting.

Additionally, for expenditure stated in this finding we recommend that controllers conduct additional administrative control in accordance with rules and ensure adequate audit trail since otherwise expenditure is ineligible.

We recommend that controllers determine how many expenditures of this category there have been up to now in all contracted projects and re-perform verification of eligibility of expenditures.

All expenditures for which there is no sufficient audit trail should be proclaimed ineligible.

Additionally, related to the control of declared expenditure it is necessary to develop detailed checklist by type of expenditure, which will direct controller to an adequate verification of expenditure.

Implementation deadline: *Immediately*

Follow up of implementation of recommendation:

Status: *Not implemented*

Level of priority: *Major*

CFCU resubmitted reports and all supporting documentation related to costs of Albanian project partners, already approved by CFCU, so that Control Body could perform re-check.

CFCU should make additional check by the end of implementation of contracts, i.e. at the latest by final reports for each contract and make final decision on eligibility of expenditure.

Regarding the Checklists, in the meantime CFCU developed more detailed checklist which contains set of questions for each budget heading.

3. The risk identification

ICF requirement:

2. Risk management

(b) Risk identification, assessment and response

Level of priority: *Intermediate*

Body/-ies concerned by the finding: *HOS Office*

According to MoP the Risk Management includes different activities like identifying, assessing, prioritizing risks, planning, implementation and review of mitigating or corrective actions as well as in advance planning and control. Three documents are needed for the successful implementation of the IPA risk management activity: Risk Alert Form, Risk Register and Risk Action Plan.

During the system audit, Audit Authority was informed that Head of Operational Structure resigned from that position on May 31, 2019. Until the appointment of the new HOS for cross-border cooperation programs with Albania and Kosovo, the Head of the HOS Office temporarily took over the duties of HOS according to Substitution Plan. Up to this date, this situation has been unchanged, i.e. nothing is being done about the appointment of HOS which puts at risk the proper functioning of the Operating Structure. By looking at the Risk Register and the Risk Alert Forms, we determined that this situation is not recognized, described and assessed as risk by the HOS Office, and therefore no proper Action Plan has been developed to mitigate or eliminate this risk.

Recommendation:

We recommend that the HOS Office identify, describe and evaluate the risks related to HOS appointment.

Implementation deadline: *February, 2020*

Follow up of implementation of recommendation:

Status: *Implemented*

HOS Office identified the risks related to HOS appointment and sent Risk Alert Form and updated Risk Register and Action Plan to DMS.

Bearing in mind the above mentioned, we concluded that recommendation was fulfilled and finding is closed.

4.4.2 Details of whether any problem identified were considered to be of systemic character, and of measures taken, including a quantification of the irregular expenditure and any related financial corrections

During system audit one finding which indicates systemic nature of error was identified (*Finding No. 2. Audit trail for travel costs*). For expenditure of transportation of the budget lines 2.1 - international travel and 2.2 - local transportation, controllers approved expenditure without adequate evidence (invitation, agenda, list of participants, travel orders, accounting records) which confirms that travel costs are incurred, as prescribed in the Guidance on Financial Reporting.

Audit Authority recommend that controllers determine how many expenditures of this category there have been in all contracted projects and re-perform verification of eligibility of expenditures.

In order to resolve this issue CFCU resubmitted reports and all supporting documentation related to costs of Albanian project partners, already approved by CFCU, so that Control Body could perform re-check. Re-performance of expenditure eligibility check is on-going.

CFCU will make additional check by the end of implementation of contracts, i.e. at the latest by final reports for each contract and make final decision on eligibility of expenditure.

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 2019 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

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

The audit of sample of transaction in the framework of IPA II 2014-2020 CBC Programme "Montenegro-Albania" was conducted by the Audit Authority of Montenegro according to Audit Strategy 2019-2021. In conducting the audit AA was assisted by the Group of Auditors composed of representatives of the Audit Authority of Montenegro who performed the audit in territory of Montenegro and representatives of the Audit Agency for the EU - Accredited Assistance Programmes of Albania who performed the audit in territory of Albania in accordance with Rules of procedures of Group of Auditors.

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

The sampling was performed by the Audit Authority in accordance with the method described in the Audit Strategy 2019-2021 adopted for the Programme and in accordance with international auditing standards and having regard to the EGESIF 16-0014-01 Guidance on sampling methods for audit authorities.

Bearing in mind small number of operation in accounting year 2019 the sample was selected applying non-statistical sampling method by random selection of items. Sample size has been determined taking into account AA overall assessment of the MCSS and EGESIF 16-0014-01 guidance regarding minimal sample size when applying non-statistical sampling.

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 bearing in mind that AA used non-statistical method.

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.

The audit of operations was performed on the sample of operations for which the expenditures were declared to the European Commission during 2019. One Declaration of Expenditure was sent to the European Commission regarding 2014 financial allocation in total amount of 85.414,93€ (72.581,18€ EU part and 12.833,75€ private co-financing) and one Declaration of Expenditure regarding 2015 financial allocation in total amount of 117.525,23€ (99.883,60€ EU part and 17.642,45 € private co-financing). As for financial allocation for 2016, 2017 and 2018 no contracts were signed and no expenditure was declared during the year 2019.

No negative items were present in the amounts declared to the Commission during 2019.

The population considered for drawing up the sample for the audit of operations consisted of 7 operations including 202.940,16 € of total cost recognised amounts included in CA accounting records and declared to the Commission in the financial year 2019. Population is given in table below:

Contract	Name of the Contract	Contractor	Contracted			Open pre-financing	Cost recognised		
			EU part	Private co-financing	Total		EU part	Private co-financing	Total
FA 2014									
CFCU/MNE/051	Preserving Cultural Landscape of Albania and Montenegro	Polimski Museum	345.600,00	61.278,88	406.878,88	158.740,66	24.708,07	4.381,03	29.089,10
CFCU/MNE/052	Local Cuisine as Tourism Offer of Cross-border Region	RDA Bjelasica, Komovi and Prokletije	373.258,25	65.920,77	439.179,02	141.516,62	32.722,02	5.779,00	38.501,02
CFCU/MNE/053	Youth Montenegrins and Albanians in Raspberry Crops	Municipality of Petnjica	230.467,30	40.670,70	271.138,00	157.035,45	15.151,09	2.673,72	17.824,81
CFCU/MNE/054	Child Friendly Tourism in the Cross-Border Region	ADP Zid	216.592,82	41.255,78	257.848,60	99.658,94	0,00	0,00	0,00
Total			1.165.918,37	209.126,13	1.375.044,50	556.951,67	72.581,18	12.833,75	85.414,93

Contract	Name of the Contract	Contractor	Contracted			Open pre-financing	Cost recognised		
			EU part	Private co-financing	Total		EU part	Private co-financing	Total
FA 2015									
CFCU/MNE/055	Augmenting Cooperation from Christian Antiquities Towards	Diocese of Budimlje and Nikšić	491.985,98	86.821,06	578.807,04	165.149,71	27.744,78	4.896,14	32.640,92
CFCU/MNE/050	Disasters do not know borders	Municipality of Ulcinj	410.900,00	72.638,35	483.538,35	286.843,87	19.994,69	3.534,63	23.529,32
CFCU/MNE/049	Green Lands	Municipality of Berane	399.215,22	70.601,70	469.816,92	94.689,06	23.547,84	4.165,28	27.713,12
CFCU/MNE/048	The Feminine side of Quality	FORS Montenegro	284.357,81	50.180,79	334.538,60	182.312,21	28.596,29	5.046,40	33.642,69
Total	1.586.459,01	280.241,90	1.866.700,91	728.994,85	99.883,60	17.641,63	99.883,60	17.642,45	117.526,05

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.

According to EGESIF_16-0014-01 “Guidance on sampling methods for audit authorities Programming periods 2007-2013 and 2014-2020” of 20th January 2017, the sampling unit in ETC programmes when designing the sampling methodology may be the operation, project partner or payment claim.

During the planning phase of audit of operation AA decided that operation is set as sampling unit considering that said sampling unit will allow the AA to assess all audit area in order to attain audit of operation’s objectives.

Bearing in mind small number of operation (7 operations) in accounting year 2019 the sample was selected applying non-statistical sampling method by random selection of items. Sample size has been determined taking into account AA overall assessment of the MCSS, Commission statement regarding minimal sample size when applying non-statistical sampling, and risks identified in previous system audit engagements.

To assure the randomness of the sample, the AA used a specialized CAAT tool CaseWare IDEA.

Three operations in overall amount of 70.443,23€ have been selected in the sample using equal probability selection which presents 42.85% of the total number of units/operations (population) and 34.70% of total amount of declared costs. Taking into account the level of assurance provided by the system audits and risks identified the AA considers that the drawn sample is sufficient to draw conclusions and an audit opinion.

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).

See point 10. of the Report.

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.

The overall audit objective is to verify the legality and regularity of declared expenditures, in accordance with AA competencies established by the Law on Audit of EU Funds and functions and the

responsibilities set out in Annex A of the Framework Agreement concluded between the Government of Montenegro and the European Commission.

The audit was performed on sample of three operations. Details about operations we have selected are given in the table below:

Operation/Contract	Total expenditure declared (EUR)	Union contribution (EUR)	Private co-financing (EUR)	Expenditure audited (EUR)	Audited/ Declared expenditure (%)
FA 2014					
CFCU/MNE/051 Preserving Cultural Landscape of Albania and Montenegro	29.089,10	24.708,07	4.381,03	29.089,10	100%
CFCU/MNE/053 Youth Montenegrins and Albanians in Raspberry Crops	17.824,81	15.151,09	2.673,72	17.824,81	100%
FA 2015					
CFCU/MNE/050 Disasters do not know borders	23.529,32	19.994,69	3.534,63	23.529,32	100%
TOTAL	70.443,23	59.853,85	10.589,38	70.443,23	100%

Following bodies were covered during the audit:

- Ministry of Finance – Directorate for Finance and Contracting of the EU Assistance Funds (CFCU) - Implementing Agency (IA);
- National Fund Division (NFD).

The Audit Authority also carried out on-the-spot checks at the premises of Grant Beneficiaries, i.e. Museum of Polimlje and Regional Development Agency for Bjelasica, Komovi and Prokletije from Contract CFCU/MNE/051, Municipality of Petnjica from Contract CFCU/MNE/053 and Foundation for the Development of Northern Montenegro (FORS) from Contract CFCU/MNE/050.

The Albanian GoA members carried out on the spot check at the premises of Albanian project partners, i.e. EuroPartners Development and Regional Council of Shkoder from Contract CFCU/MNE/051, National Professional High School "Ndre Mjeda" and COSPE - Cooperation for Development of Emerging Countries from Contract CFCU/MNE/053 and Prefecture of Shkodra from Contract CFCU/MNE/050.

No transaction findings were identified during the audit. We identified one system finding.

Finding: Procedures for control of eligibility of expenditure

Responsible body: IA/CFCU

According to the Framework Agreement Annex A – Clause 4 – 3(b)(x), Operating structure shall verify that the expenditure incurred, paid and declared to the NAO complies 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 requests by the recipient are correct.

These management verifications shall cover administrative, financial, technical and physical aspects of each action and shall include:

- full administrative verification of the supporting documents in respect of each commitment and payment;
- physical on-the-spot verifications, the frequency and scope of which shall take into account, inter alia, the type of action, the amount of public expenditure involved and the level of risk identified.

According to the Article 14.1 of Grant Contract General Conditions one of the cost eligibility criteria is that costs are identifiable and verifiable, in particular being recorded in the accounting records of the Beneficiary (ies) and determined according to the accounting standards and the usual cost accounting practices applicable to the Beneficiary (ies).

Reviewing the control procedures used by CFCU during the verification of grant beneficiary progress reports and eligibility of expenditure we determined that controllers do not perform administrative verification of fulfilment of abovementioned criterion. According to the Guidance on financial reporting, grant beneficiaries have no obligation to submit accounting records within progress reports supporting documentation to justify the costs eligibility nor did CFCU request it during administrative control for the purpose of approval the reports. Controllers confirmed the fulfilment of this criterion in administrative control check list but without adequate supporting documents related to accounting entries.

Accounting evidence was checked only during the on the spot control. However, according to CFCU control procedures described in MoP Chapter Contract implementation and OTSC, on-the-spot verifications for grant contracts must be performed at least once during the implementation of the contract and always before final payment. According to procedure OTSC does not have to be carried out before approval of each Interim report.

This results in approving the interim reports without supporting accounting evidence verifying that the accounting criterion is met. The lack of proper supporting documentation calls into question the fulfilment of this eligibility criteria.

Level of priority: *Medium*

Recommendation:

We recommend that CFCU requests from the grant beneficiaries adequate accounting documentation within progress reports for all reported costs in order to ensure adequate audit trail that all eligibility criteria are fulfilled. The controllers should fulfil relevant administrative verification checklist based on the review of the beneficiary accounting records. Additionally, we recommend to update Guidance on financial reporting for beneficiaries regarding the request of accounting records of each reported cost.

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.

The conclusions of the audit are based on the information and documents gathered during the audit from beneficiaries and MCSS bodies, interviews conducted in the audited bodies and tests performed following the working papers and checklists for specific audit areas.

Based on the audit work performed we have obtained reasonable assurance that the expenditure declared in the amount of 202.940,16 € in the period 01/01 – 31/12/2019 is in all material aspects, legal and regular.

On the basis of result of the audit of operation, Audit Authority concluded that assessment of MCSS given during system audit which is in Category 2 ('works, but improvements are needed') shall remain same.

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.

The audit of the annual financial reports or statements/annual account in the framework of IPA II 2014-2020 CBC Programme "Montenegro-Albania" was conducted by the Audit Authority of Montenegro according to Audit Strategy 2019-2021.

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

During the audit AA took into consideration the results both of the system audits and of the audit of operations. 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 had been prepared in accordance with the templates set out in Annex 4a and 4b of Financing Agreement.

The Audit Authority, on the basis of the Annual Financial Reports provided by the National Fund Division (NF), verified that:

(a) the total amounts contracted and addendums signed, invoices received, payments made and recoveries requested, amounts disbursed, total costs recognised, amounts of open pre-financing 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 the National Fund Division (NF) and are based on verifications and relevant supporting documents (requests, checklists, approvals) of the Implementing Agency/CFCU, HOS and National Fund Division (NF); see Reconciliation table below:

Programme/Grant beneficiary				NF Accounting System												IA/CFCU					
Name	Current contract value	Source	Payment Request by Grant beneficiary	RfF from IA	Record in NF Acc system	Bridge Financing	Record in NF Acc system	RfFs to EC	Record in NF Acc system	Bank statement MF-NF-IPA Acc	Record in NF Acc system	Bank statement State Treasury Main Acc	Record in NF Acc system	Financial Forecast	Cost recognised	Payment Order	Bank statement	Record in CFCU Acc system	Pre-financing cleared	Open pre-financing	Recovery
CBC MNE-AL 2014	1.165.918,37	Pre-financing	629.532,85	629.532,85	629.532,85	N/A	N/A	357.000,00 272.532,85	357.000,00 272.532,85	357.000,00 272.532,85	357.000,00 272.532,85	629.532,85	629.532,85	290.081,25	679.329,74	629.532,85	629.532,85	629.532,85	433.025,47	196.507,38	0,00
		Interim	289.285,05	246.304,27	246.304,27	246.304,27	246.304,27	536.385,52	536.385,52	536.385,52	536.385,52	246.304,27	246.304,27			246.304,27	246.304,27	246.304,27			
CBC MNE-AL 2015	1.586.459,01	Pre-financing	828.878,45	828.878,45	828.878,45	318.878,45	318.878,45	510.000,00 318.878,45	510.000,00 318.878,45	510.000,00 318.878,45	510.000,00 318.878,45	828.878,45	828.878,45	132.497,22	1.191.712,13	828.878,45	828.878,45	828.878,45	649.122,34	179.756,11	0,00
		Interim	535.963,23	535.963,23	535.963,23	N/A	N/A	668.460,44	668.460,44	668.460,44	668.460,44	535.963,23	535.963,23			535.963,23	535.963,23	535.963,23			
CBC MNE-AL 2016	N/A	Pre-financing	0,00	0,00	0,00	N/A	N/A	1.360.000,00	1.360.000,00	1.360.000,00	1.360.000,00	0,00	0,00	1.360.000,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
CBC MNE-AL 2017	N/A	Pre-financing	0,00	0,00	0,00	N/A	N/A	952.000,00	952.000,00	952.000,00	952.000,00	0,00	0,00	952.000,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
CBC MNE-AL 2018	N/A	Pre-financing	0,00	0,00	0,00	N/A	N/A	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00

(b) the total amounts submitted in the Annual Financial Reports correspond to the amounts in the electronic database for each contract in relation to the contract reference, initial contract amount, amended contract amount, contract implementation start and end date, amount paid and amount of recoveries under the contract, amount related to total pre-financing paid and pre-financing cleared, total costs accepted, invoice date, invoice initial amount and invoice eligible amount accepted;

(c) the bank account statement balances and the bank confirmation letter correspond to the year-end balances in the accounting systems of the National Fund Division (NF) and Implementing Agency/CFCU.

Audit was performed using the Checklist for audit of accounts (Annex 4c of the AA MoP). Comparison and testing data was carried out on Annual Financial Reports – (Annexes 4a and 4b of Financial Agreements), IA Requests for Funds, IA Financial Reports Overview, Monthly Progress Report on contracts and payments, IA payment orders, IA Cash flow statements, Bank statements and IA Accounting records in the General ledger.

Furthermore, verifications on the amounts were carried out on the following evidence in the National Fund Division (NF): Year-end cut-off reports, Payment requests to the EC, Requests for Funds from IA, Liquidity book, Bank statements, Bridge financing documents and Transfer orders and accounting records in the General Ledger.

During the audit no findings which have influence on the completeness, accuracy and veracity of the amount reported in annual accounts have been identified.

Regarding the model used by NAO for submission Annual Financial Reports for the Programme which does not include all elements prescribed by the Financing Agreements, we recommended using appropriate form of the Annex IV for the CBC Programmes which includes the Column 5 – Contracted %. This column was not included in the submitted Annual Financial Reports for the year 2019. Furthermore, we also recommend separating Annual Financial Reports for the CBC Programmes from the other Action Programmes (CAP, SOPEES) in order to better overview the Programmes' amounts and apply prescribed model of the reports.

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 a follow-up to the results of the audit on transactions/operations.

The Audit Authority system audit and audit of operation engagements have not resulted in financial corrections regarding the reference period. The audit finding issued within the Audit of operations report N° 3011-2-06-90 as of 17th February 2020, with no financial correction, in relation to the collection of accounting records of the beneficiaries by Implementing Agency/CFCU, has no influence on the completeness, accuracy and veracity of the Annual Financial Reports.

Also, the audit findings issued within the System audit report, N° 3011-1-06-425 of 30th December 2019 have not influenced the correctness of the Annual Financial Reports for 2019.

The conclusion of the audit of accounts is based on the analysis of the procedure in place, information and documents collected and meeting conducted in the National Fund Division (NF), as well as the tests performed in the course of the audit by applying the Checklist for the audit areas.

Based on the performed audit of Annual Financial Reports or Statements/Annual Account we have obtained reasonable assurance on the completeness, accuracy and veracity of the amounts declared in the accounts submitted to the Commission for the accounting year 2019.

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

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.

During system audit performed in 2019, Audit Authority carried out follow up of implementation of recommendation related to open findings from the previous years. Results of follow up were presented in Final System audit report.

Additionally, during February 2020 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 2019 as well as open findings from previous years' system audits.

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

- On 14th February 2020 we sent Tables with the summary of open findings and recommendations from audits performed 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 24th February 2020 we received information we requested from Montenegrin and Albanian IPA Bodies. 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.

In respect to findings from system audit performed during 2019, results of follow up are presented in Section 4.4.1 of this Report.

As for the findings from the previous years, 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 2017	Body	Status in February 2020	New deadline
1.	Understaffing	IA/CFCU, NIPAC Office	<p><i>Open</i></p> <p>Progress in respect to the employment of necessary staff is evident. However discrepancy between needed and current number of staff still exists.</p> <p>Positions of Head of Financial Division and Accountant within CFCU have not been filled-in.</p> <p>As for NIPAC Office, lack of staff is still evident in Group for Programming.</p> <p>Level of priority: <i>Intermediate</i></p>	June 2020
2.	Deficiency in the MoP Written Procedures	NFD, NAOSO, HOS Office, CBC Body, IA/CFCU	<p><i>Open</i></p> <p>Version 2.0 of MoP has been up-dated and adopted. It is evident that minor as well as substantial modifications have been made and that MoP has been prepared taking into account AA findings.</p> <p>However, additional improvement is needed. Namely, Irregularity Management Chapter (ex Chapter Irregularities) does not clearly describe procedures in respect to the role of HOS/HOS Office.</p> <p>Chapter Annual Management Declaration does not describe design and procedures in respect to the release or controls of Annual Management Guarantee.</p> <p>Bearing in mind that NAO is obliged to issue Annual Management Declaration for whole CBC programme Montenegro-Albania we suggest updating this Chapter in accordance with the PLCP.</p> <p>Additionally, terminology and technical mismatches are evident in the valid version of MoP.</p> <p>Level of priority: <i>Minor</i></p>	September 2020
3.	Lack of the Programme level	NAO/NAOSO,	<i>Implemented</i>	

	control procedure	NFD, HOS/HOS Office, CBC Body, IA/CFCU	Programme level control procedures has been prepared and agreed between two Operating Structures. NAO approved PLCP and it entered into force on 18 th November 2019. The finding is closed.	
4.	Inadequate backup of data and insufficient number of trainings related to IT	NF, NAOSO, HOS Office, CBC Body, IA/CFCU	<p><i>Open</i></p> <p>DMS and CFCU staff have possibility for back-up and archiving of data using the Network Attached Storage.</p> <p>However, HOS Office and CBC Body staff still use external hard disk which is not secured enough for back-up and it is not in accordance with prescribed procedures</p> <p>Additionally, 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 has not been adopted yet. The finding remains open.</p> <p>Level of priority: <i>Intermediate</i></p>	June 2020
5.	Insufficient number of staff in the Internal Audit Department	NF, NAOSO, IA/CFCU	<p><i>Closed</i></p> <p>Progress in strengthening the internal audit capacities has been made in previous period.</p> <p>5 internal auditors and Head of IAU are currently engaged within Internal Audit Department. There is one vacant position according to Rulebook on internal organization and systematization.</p> <p>During 2018 IAD performed system audit of CFCU and DMS-NAO SO in accordance with Strategic Plan and annual audit plan and issued the reports.</p> <p>Bearing in mind that IAD capacities are strengthened and that IAD performed audit of IPA Bodies in previous period with existing capacities the finding is considered closed.</p>	
6.	Insufficient knowledge of	HOS Office	<p><i>Closed</i></p> <p>Bearing in mind that HOS Office regularly</p>	

	procedures in respect to the new Information System		performs activities of control and approval of respective documents without need for using the Information system the finding is considered closed.	
7.	Deficiencies in the Job Descriptions	HOS Office, CBC Body, IA/CFCU	<p><i>Closed</i></p> <p>A new version of MoP which contains updated templates for JDs is endorsed by NAO on 1st July 2019. Template for HOS Job Description is prepared but due to the technical omission it is not included in new version of MoP.</p> <p>However considering that template exists we can conclude that recommendation is fulfilled.</p>	
No	Findings identified during the System audit 2018	Body	Status in February 2020	New deadline
1.	Official Appointment of the HOS	NIPAC NAO	<p><i>Open</i></p> <p>HOS has not been appointed yet. Tasks delegated to HOS are currently performed by Head of HOS Office on the basis of Substitution plan.</p> <p>The finding remains open.</p> <p>Level of priority: <i>Intermediate</i></p>	June 2020
2.	Deficiencies in system level verification in respect to CBC OS Bodies	NAO NAO SO	<p><i>Closed</i></p> <p>During December 2019 NAO SO conducted transaction level verification within CFCU and issued On-the-spot check report. Verification was performed for two projects within CBC Programme MNE-ALB chosen on the basis of risk analysis.</p> <p>According to the Annual OTSC Plan for 2020 transaction level verification is planned in CFCU for II and IV Q of 2020 and follow up on system level in HOS Office.</p> <p>On the basis of abovementioned we can conclude that recommendation is fulfilled and finding is closed.</p>	

Out of 9 findings which remained open after the previous Annual activity report, 2 of them are closed during the follow up performed together with system audit in 2019 and 3 findings during the follow up performed as separate activity in February 2020.

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

No	Findings identified during the System audit 2017	Body	Status in February 2020	New deadline
1.	Deficiencies in the process of issuing Annual Management Guarantee	HOS, CBC Body, Control Body	<p><i>Partly implemented</i></p> <p>AMG task and activities are currently being included in the job description of the Head of OS.</p> <p>The job descriptions are currently being updated according to the findings to reflect specific tasks related to the Programme but a formal approval from the General Secretary is needed. In the meantime a general revision of all job descriptions of public administrations is being conducted. Therefore, the job description should be also in line with the new methodology/templates.</p> <p>An action plan on Head of Operating Structure reservations from Annual Management Guarantee process for the year 2019 has been approved.</p> <p>Level of priority: <i>Minor</i></p>	September 2020
2.	Lack of Inter-institutional agreements (Implementing and/or Operational Agreement) and adequate Legal Basis	NIPAC, HOS, CBC Body, Control Body	<p><i>Closed</i></p> <p>Article no.7 of the Bilateral Agreement signed between two parties, defines that the operating structure for this programme will be composed by CBC body and by Control Body. Moreover, the operational agreement was signed in February 2018 between HoOS, HoCBC body and HoControl Body. In this agreement the implementation methods such as administrative, financial and technical management are set out, as well as those pertaining to monitoring and evaluation of the IPA II CBC programme MNE-AL 2014-2020 on Albanian territory. In this agreement, the respective rights, obligations and responsibilities of OS and Control Body in Albania are defined.</p>	
3.	Lack of Internal Control procedures	HOS, CBC Body	<p><i>Closed</i></p> <p>PLCP which include internal control procedures was approved by NAO and entered into force on 18th November 2019.</p>	

			The finding is considered closed.	
4.	Lack of Irregularities procedures	HOS, CBC Body	<i>Closed</i> PLCP which include irregularity procedures was approved by NAO and entered into force on 18 th November 2019. The finding is considered closed.	
5.	Lack of Work Load Analysis, Recruitment plan and Job descriptions	HOS, CBC Body	<i>Partly implemented</i> The job descriptions are currently being updated according to the findings to reflect specific tasks related to the Programme but a formal approval from the General Secretary is needed. In the meantime a general revision of all job descriptions of public administrations is being conducted. Therefore the job description should be also in line with the new methodology/templates The workload prepared reflects the workload of personnel and there is no need for additional staff (no vacancies in the Directorate). Currently a new WLA for 2020-2022 is being prepared. Level of priority: <i>Minor</i>	September 2020
6.	Inadequate Human Resource policy and Substitution Plan, Handover and Sensitive Posts)	HOS, CBC Body	<i>Partly implemented</i> There is a training register for each employee which is regularly updated. Handover procedure is in place. The substitution plan and all the other needed documents will be further updated following the new organogram of MEFA and the change of staff within Territorial Cooperation Directorate. Level of priority: <i>Minor</i>	September 2020
No	Findings identified during the System audit 2018	Body	Status in February 2020	New deadline

1.	Lack of Annual Work Plan for the year 2018	Control Body	<i>Closed</i> Contracting Authority in Montenegro sent to FLC Albania the List of CBC MNE-AL grant contracts and the Annual on the Spot Verification Plan signed on 04.01.2020 by the Head of CFCU of Montenegro.	
2.	Lack of identification and assessment of changes in MCSS	Control Body	<i>Closed</i> PLCP which includes procedures for announcement and reporting of changes was approved by NAO and entered into force on 18 th November 2019. Montenegrin HOS is informed about changes occurring during 2019 in ALB OS.	

Out of 8 findings which remained open after the previous Annual activity report, 1 of them is closed during the follow up performed together with system audit in 2019 and 4 findings during the follow up performed as separate activity in February 2020.

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 the 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 audit activity report under Art. 12 (3) of Commission Implementing Regulation (EU) No 447/2014 to the Commission and considered when establishing the level of assurance and opinion by the audit authority.

Not applicable.

8.3 Any other information that the audit authority considers relevant and important to communicate to the Commission, in particular to justify the audit opinion, is reported in this section.

During the system audit, we identified that management verifications of expenditure incurred by beneficiaries registered in Albania were not adequate (including not complete audit trail for travel costs). However, risk of approving ineligible expenditure of Albanian project partners had been identified by the

Montenegrin CFCU and expenditure declared by the Albanian project partners had been verified by the CFCU from the beginning of the Programme implementation. Despite the possible lack of knowledge of the Albanian national regulations and language, management verifications from the CFCU employees could be still treated as the mitigating factor (compensating control) which reduces the risk of irregular expenditure. This was confirmed also by the results of the audit of operations as no errors were identified during the audit of operations which was performed on both territory of Montenegro and Albania.

Also, during the follow-up before issuing the AAAR we can confirm that some progress has been made: at the end of 2019 Montenegrin NAO submitted official letter to Albanian NAO asking for assistance in resolving issues related to functioning of two Operating Structures; in the beginning of the 2020 meeting between two OS was held where it was agreed, among other things, that the Control Body start with verification of the latest financial reports that have already been sent, and inform the CFCU of any requests for additional information or clarifications as well as verify the expenditure of Albanian project partners for all expenditure verified by CFCU so far, prior to approval of the final report. CFCU resubmitted all reports and all supporting documentation related to costs of Albanian project partners, already approved by CFCU, so that Albanian Control Body could re-perform checks. Re-performance of expenditure eligibility check is on-going. CFCU should make additional check and make final decision on eligibility of expenditure.

Therefore, taking into account above mentioned, that the findings relating to the functioning of the system and importance of the proper functioning of the system related to management verification are recognized as crucial by the management and control bodies and that the measures to correct the shortcomings in previous management verification checks and for avoidance of future similar shortcomings are already undertaken and are on-going, we consider at the moment that it is deemed appropriate to issue an unqualified audit opinion for the management and control system. This is also supported by the fact that no errors were identified during the audit of operations. However, in the following period we will closely monitor the implementation of the recommendations given relating to system audit findings, and we will appropriately report about the implementation of the recommendations.

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.

The assurance on the proper functioning of the management and control system is based on the combined results of both the system audit (system assessment – please see section 4 above) and the audit of operations (total error rate – please see section 5 above).

As a result of the system audit, and taking into account the results of the follow-up of the findings given in the previous years as well as the follow-up of the findings given during the system audit carried out during the current year, the management, control and supervision systems is assessed as works, but some improvement(s) are needed. This assessment resulting from the system audit and follow-up activities is confirmed also by the results of the audit of operations, as no error was identified during the audit of operations. Therefore, as the management, control and supervision system is assessed as works and there is no error identified, we will issue an unqualified opinion on the proper functioning of the system and on the legality and regularity of expenditure (please see also the justification above in section 8.3 of this AAAR).

The assurance on the Annual Financial Reports or Statements/Annual Account is based on the results of the audit as described in section 6.3 of this AAAR. Therefore, as based on the performed audit of Annual Financial Reports or Statements/Annual Account we have obtained reasonable assurance on the completeness, accuracy and veracity of the amounts declared in the accounts submitted to the Commission for the accounting year 2019, it is appropriate to issue an unqualified opinion on the reliability of Annual Financial Reports or Statements/Annual Account.

9.2 Where the total error rate relating to the expenditure declared in the payment claims in a year is above the materiality level, analyse its significance and assess whether this indicates a serious deficiency (ies) in the functioning of the relevant management and control system during the year. Where relevant, take also account of the results of other national or Union audit work carried out in relation to the year.

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 such as financial corrections included in the declaration of expenditure and financial statements and assess the residual error rate and the need for any additional corrective measures necessary both from a system and financial perspective.

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 ²	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
IPA	C (2014) 9352	CBC Programme "Montenegro-Albania"	172.464,78 € IPA 30.476,21 € Other sources	59.853,85 € IPA 10.589,38 € Other sources	7	3	0,00	N.a	N.a	N.a	N.a	N.a