



**MONTENEGRO  
AUDIT AUTHORITY**

Nº: 3011-4-06-133/1

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**ANNUAL AUDIT ACTIVITY REPORT**

**OF THE AUDIT AUTHORITY FOR**

**IPA II 2014-2020 CROSS-BORDER COOPERATION PROGRAMME**

**“MONTENEGRO – KOSOVO”**

**FOR THE PERIOD**

**1<sup>st</sup> JANUARY 2019 – 31<sup>st</sup> DECEMBER 2019**

Podgorica, March 2020

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## List of abbreviation

<b>AA</b>	Audit Authority of Montenegro
<b>AAAR</b>	Annual Audit Activity Report
<b>AAO</b>	Annual Audit Opinion
<b>AMD</b>	Annual Management Declaration
<b>AMG</b>	Annual Management Guarantee
<b>AWP</b>	Annual Work Plan
<b>CA</b>	Contracting Authority
<b>CB</b>	Control Body
<b>CBC</b>	Cross-border cooperation
<b>CFCU</b>	Central Finance and Contracting Unit
<b>DMS</b>	Directorate for Management Structure
<b>EC</b>	European Commission
<b>EIO</b>	European Integration Office
<b>EU</b>	European Union
<b>EUD</b>	Delegation of the European Union
<b>GoA</b>	Group of Auditors
<b>HOS</b>	Head of Operating Structure
<b>IA</b>	Implementing Agency
<b>ICF</b>	Internal Control Framework
<b>IPA II</b>	Instrument for Pre-Accession Assistance II perspective
<b>ISA</b>	International Standards on Auditing
<b>JTS</b>	Joint Technical Secretariat
<b>LTEC</b>	Long Term Employment Contract
<b>MCSS</b>	Management, Control and Supervision System
<b>MF</b>	Ministry of Finance
<b>MLGA</b>	Ministry of Local Government Administration
<b>MoP</b>	Manual of Procedures
<b>MS</b>	Management Structure
<b>NAO</b>	National Authorising Officer
<b>NAO SO</b>	NAO Support Office
<b>NFD</b>	National Fund Division
<b>NIPAC</b>	National IPA Coordinator
<b>OG MNE</b>	Official Gazette of Montenegro
<b>OS</b>	Operating Structure
<b>OTSC</b>	On-the-spot check
<b>PLCP</b>	Programme level control procedures
<b>TEC</b>	Temporary Employment Contract
<b>TNAQ</b>	Training needs analysis questionnaire
<b>TNSA</b>	Training needs self-assessment
<b>WLA</b>	Work Load Analysis

## **1. INTRODUCTION**

### **1.1 Details of the responsible Audit Authority and other bodies that have been involved in preparing the Report**

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

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

The functions and responsibilities of the Audit Authority are set out in the Framework Agreement between Montenegro and the European Commission on the arrangements for implementation of Union financial assistance to Montenegro under the Instrument for Pre-accession Assistance (IPA II), ("*Official Gazette of Montenegro*", N° 5/2015) and in the Commission Implementing Regulation (EU) N° 447/2014 on the specific rules for implementing Regulation (EU) N° 231/2014 of the European Parliament and of the Council establishing an Instrument for Pre-accession Assistance (IPA II).

The Audit Authority is responsible for verifying:

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

The Audit Authority of Montenegro is responsible for the performance of audit tasks in respect of the IPA II 2014-2020 Cross-Border Cooperation Programme "Montenegro-Kosovo" (C (2014) 9307). It has been assisted by the Group of Auditors (GoA) composed of representatives by the Audit Authority of Montenegro and Central Harmonization Unit for Internal Audit (CHU-IA) within Ministry of Finance of Kosovo.

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

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

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

Pursuant to Article 3(f) of the Framework Agreement between Montenegro and the European Commission on the arrangements for implementation of Union financial assistance to Montenegro under the Instrument for Pre-accession Assistance (IPA II), reference period for this Annual Audit Activity Report is financial year and covers the period from 1<sup>st</sup> January to 31<sup>st</sup> 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-Kosovo". Also, the follow up of the findings and recommendations given in the course of

previous audit was included in the system audit engagement.

Based on level of implementation of IPA II 2014-2020 CBC Programme "Montenegro-Kosovo", as well as in accordance with adopted Audit Strategy for period 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 Kosovo (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 in period under review CB still had not started with control of expenditure since beneficiaries had not submitted Financial and Narrative Reports yet for the first reporting period to CFCU and Control Body and that other processes in CB were covered by system audit performed in 2017 and 2018.

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.

Bearing in mind that no expenditure were declared during the year 2019, the Audit Authority has not been in position to perform audit of transactions/operations regarding the financial year 2019.

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 13<sup>th</sup> 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-Kosovo" for the year 2014 (2014/037-592), the Cross-Border Cooperation Action Programme "Montenegro-Kosovo" for the years 2015-2017 (2015/038-161, 2016/038-182 and 2017/038-183) and Cross-Border Cooperation Action Programme "Montenegro-Kosovo" for the years 2018-2020 (2018/041-472) which provide assistance for cross-border cooperation in the thematic area spelled out in the IPA II 2014-2020 CBC Programme "Montenegro – Kosovo" (C(2014) 9307).

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

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

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

To prepare the Annual Audit Activity Report, the Audit Authority processes, summarises and assesses the findings and recommendations included in the 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 performed during 2019, results of follow up of the findings and recommendations and 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 15<sup>th</sup> 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 11<sup>th</sup> February 2019.

NAO informed European Commission and Audit Authority on this personal change on 26<sup>th</sup> 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 1<sup>st</sup> April 2019.

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

#### **– Head of Operating Structure**

On the session held on 30<sup>th</sup> 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 26<sup>th</sup> June 2019. (Letter No: 01-9872).

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

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

### **2.1.2 Changes in the MCS since last Annual Audit Activity Report in respect to Kosovo**

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

#### **– Control Body**

By the Regulation No. 04/2019 from 22 February 2019 on the internal organization of the Ministry of Local Government Administration Control Body was established as Division for Control of Cross-Border Cooperation Programs within MLGA. Ms Gojarta Blakaj was appointed as Acting Head of Control Body by Decision no. 112-328 from 29 March 2019. Montenegrin HOS was informed by email sent on 6<sup>th</sup> May 2019.

### **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 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 implies strengthening of capacity of these IPA Bodies. Changes related to MoP also have positive impact bearing in mind that new version was prepared taking into account AA findings from system audit performed in 2017. 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. Establishment of Control Body as separate Division within MLGA has positive impact since functions and responsibilities of the CB have been more clearly developed and segregated.

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 – Kosovo" 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 - Kosovo", in line with the functions and responsibilities set out in Clause 5 of Annex A to the Framework Agreement.

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

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

Audit period	1. Programme (CCI and title)	2. Audit Body	3. Audited Body(ies)	4. Date of the audit	5. Scope of the audit	6. Principal findings and conclusions	7. Problems of systemic character and measures taken	8. Estimated financial impact (if applicable)	9. State of follow-up (closed or not)
01.01.2019.-31.12.2019.	IPA II 2014-2020 Cross-Border Cooperation Programme Montenegro- Kosovo (C (2014) 9307)	Audit Authority of Montenegro + Goa 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-Kosovo	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	No findings/identified during the audit  <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		/	For results of follow up of findings from previous years please refer to the point 7.1 of this Report

Based on level of implementation of IPA II 2014-2020 CBC Programme “Montenegro-Kosovo”, available AA's resources and all collected information and documentation as well as the results of risk assessment, the following bodies being part of the management, control and supervision system and relevant 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 (KSV CB)**

- verified through the follow up of previous years findings taking into consideration the fact that in period under review CB still had not started with control of expenditure since beneficiaries had not submitted Financial and Narrative Reports yet for the first reporting period to CFCU and Control Body 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 MCSS.

The system audit encompassed the period from 30<sup>th</sup> September 2018 to 30<sup>th</sup> June 2019. The audit was performed in the period from 24<sup>th</sup> May 2019 until 31<sup>st</sup> October 2019. The Final Audit Report was issued and submitted to National Authorising Officer, National IPA Coordinator of Montenegro, National IPA Coordinator of Kosovo, Head of Operating Structure in Montenegro and Head of Operating Structure in Kosovo on 30<sup>th</sup> January 2020.

#### **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 (KSV CB)<sup>1</sup>.

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;

#### **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 2 intermediate findings which had been closed during contradictory procedures. Namely one finding was related to checklist which CFCU used for control of eligibility of expenditures that were not detailed enough and contained only general questions. In the meantime CFCU developed more detailed check list which contains set of questions for each budget heading and finding is closed.

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<sup>1</sup> Control Body was verified through the follow up of previous years findings taking into consideration the fact that in period under review CB still had not started with control of expenditure since beneficiaries had not submitted Financial and Narrative Reports yet for the first reporting period to CFCU and Control Body and that other processes in CB were covered by system audit performed in 2017 and 2018.

Other finding was related to the fact that Head of Operating Structure had not been appointed and that this situation was not recognized, described and assessed as risk by the HOS Office, and therefore no proper Action Plan had been developed to mitigate or eliminate this risk. In the meantime HOS Office identified the risks related to HOS appointment and sent Risk Alert Form and updated Risk Register and Action Plan to DMS. Bearing that in mind finding is closed.

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:

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

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:

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

#### 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-Kosovo" has been classified in **Category 2** that is it '**works, but some improvements are needed**'.

## 5. AUDITS OF SAMPLES OF TRANSACTIONS

Not applicable. Bearing in mind that no expenditure were declared during the year 2019, the Audit Authority has not been in position to perform audit of transactions/operations regarding the financial year 2019.

## **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-Kosovo” 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 of the system audits regarding the design and operating effectiveness of the management and control (MCSS) in the process of preparing and submitting of the Annual Financial Reports carried out in the National Fund Division (NF). Bearing in mind that no expenditure were declared during the year 2019, the Audit Authority has not been in position to perform audit of transactions/operations regarding the financial year 2019.

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
<b>CBC MNE-KSV 2014</b>	833.163,72	Pre-financing	548.503,73	548.503,73	548.503,73	13.209,61	13.209,61	378.000,00 157.294,12 214.553,23	378.000,00 157.294,12 214.553,23	378.000,00 157.294,12 214.553,23	378.000,00 157.294,12 214.553,23	548.503,73	548.503,73	201.343,62	81.058,74	548.503,73	548.503,73	548.503,73	81.058,74	467.444,99	0,00
<b>CBC MNE-KSV 2015</b>	1.186.829,66	Pre-financing	827.049,44	827.049,44	827.049,44	62.343,56	62.343,56	540.000,00 224.705,88 303.440,81	540.000,00 224.705,88 303.440,81	540.000,00 224.705,88 303.440,81	540.000,00 224.705,88 303.440,81	827.049,44	827.049,44	241.097,25	110.023,43	827.049,44	827.049,44	827.049,44	110.023,43	717.026,01	0,00
<b>CBC MNE-KSV 2016</b>	N/A	Pre-financing	0,00	0,00	0,00	0,00	0,00	960.000,00	960.000,00	960.000,00	960.000,00	0,00	0,00	960.000,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
<b>CBC MNE-KSV 2017</b>	N/A	Pre-financing	0,00	0,00	0,00	0,00	0,00	672.000,00	672.000,00	672.000,00	672.000,00	0,00	0,00	672.000,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
<b>CBC MNE-KSV 2018</b>	N/A	Pre-financing	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	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 has not resulted in financial corrections regarding the reference period and has not influenced the correctness of the Annual Financial Reports for 2019. Bearing in mind that no expenditure were declared during the year 2019, the Audit Authority has not been in position to perform audit of transactions/operations regarding the financial year 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 during 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.

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

- On 14<sup>th</sup> February 2020 we sent Tables with the summary of open findings and recommendations from audits performed to all IPA bodies in Montenegro and Kosovo with request to include into the Tables their Management response on the status of the individual recommendation with the appropriate explanation, regardless of whether deadline for implementation of recommendation has expired or not. We also informed them that they should prepare the evidence on the fulfilment of the individual recommendation which will be provided to us.

- On 26<sup>th</sup> February 2020 we received information we requested from Montenegrin and Kosovo IPA Bodies. After the analysis of the received responses and documentation collected, Audit Authority in cooperation with Kosovo GoA members assessed the status of the individual recommendation with the respective explanation and prepared Audit Recommendations' Status Reports which were submitted to all IPA Bodies in Montenegro and Kosovo.

All findings identified during system audit performed in 2019 are closed during contradictory procedures. As for the findings from system audits performed during 2017 and 2018, 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	<b><i>Open</i></b>  Progress in respect to the employment of necessary staff is evident. However discrepancy between needed and current number of staff still exists.	June 2020

			<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>	
2.	Deficiency in the MoP Written Procedures	NFD, NAOSO, HOS Office, CBC Body, IA/CFCU	<p><b>Open</b></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-Kosovo 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 control procedure	NAO/NAOSO, NFD, HOS/HOS Office, CBC Body, IA/CFCU	<p><b>Closed</b></p> <p>Programme level control procedures have been prepared and agreed between two Operating Structures. NAO approved PLCP with the date of entry into force on 1<sup>st</sup> November 2019.</p> <p>The finding is closed.</p>	
4.	Inadequate backup of data and insufficient number of	NF, NAOSO, HOS Office,	<p><b>Open</b></p> <p>DMS and CFCU staff have possibility for back-up and archiving of data using the</p>	June 2020

	trainings related to IT	CBC Body, IA/CFCU	<p>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>	
5.	Insufficient number of staff in the Internal Audit Department	NF, NAOSO, IA/CFCU	<p><b>Closed</b></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 procedures in respect to the new Information System	HOS Office	<p><b>Closed</b></p> <p>Bearing in mind that HOS Office regularly performs activities of control and approval of respective documents without need for using the Information system the finding is considered closed.</p>	
7.	Deficiencies in the Job Descriptions	HOS Office, CBC Body, IA/CFCU	<p><b>Closed</b></p> <p>A new version of MoP which contains updated templates for JDs is endorsed by NAO on 1<sup>st</sup> July 2019. Template for HOS Job Description is prepared but due</p>	

			to the technical omission it is not included in new version of MoP.  However considering that template exists we can conclude that recommendation is fulfilled.	
No	Findings identified during the System audit 2018	Body	Status in February 2020	New deadline
1.	Official Appointment of the HOS	NIPAC NAO	<b>Open</b>  HOS has not been appointed yet. Tasks delegated to HOS are currently performed by Head of HOS Office on the basis of Substitution plan.  The finding remains open.	June 2020
2.	Deficiencies in system level verification in respect to CBC OS Bodies	NAO NAO SO	<b>Closed</b>  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-KSV chosen on the basis of risk analysis.  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.  On the basis of abovementioned we can conclude that recommendation is fulfilled and finding is closed.	

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

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

No	Findings identified during the System audit 2017	Body	Status in February 2019	New deadline
1.	Lack of procedures related to control activities	HOS, CBC Body	<b><i>Closed</i></b>  Procedures related to control activities were developed in PLCP approved by NAO with the date of entry into force 1 <sup>st</sup> November 2019.	
2.	Lack of procedures regarding reporting of irregularities	HOS	<b><i>Closed</i></b>  Procedures related to reporting of irregularities were developed in more details in Programme level control procedures approved by NAO, with the date of entry into force 1 <sup>st</sup> November 2019.	
3.	Lack of adequate human resource documentation	CBC Body	<b><i>Closed</i></b>  The OS KS has developed and prepared the following documents:  1. Substitution Plan and Substitution plan for CB and CBC body per case in order to provide the continuity of operation;  2. Annual training plan for 2019 and individual trainings register and seminars.  3. Work Load analysis for CBC and CB for 2019 and draft WLAs for 2020 and  4. Recruitment plan  5. Annual Work Plan for CBC and CB Body based on the annex of PLCP.	
4.	Missing internal procedures and templates for fraud risk	CBC Body	<b><i>Partly implemented</i></b>  Recovery procedures and procedures in respect to the whistle-blowing have not been developed yet.  Trainings for handling of irregularities and fraud are planned within TAGS under budget line 5.7.12 but have not been implemented yet.	September 2020

			Level of priority: <i>Minor</i>	
5.	Deficiencies in the Risk Management	CBC Body	<p><b><i>Partly implemented</i></b></p> <p>OS KS appointed two Risk Managers, one for CBC Body and one for CB to temporarily perform the risk management as an additional task until one Risk Manager is recruited).</p> <p>CBC Body identified and assessed risks and filled out risk documentation which was submitted to OS MNE in January 2020.</p> <p>Trainings in respect to risk management are planned within TAGC under budget line 5.7.12 of TAGC but have not been implemented yet.</p> <p>Level of priority: <i>Minor</i></p>	September 2020
6.	Control Body has not been established	HOS	<p><b><i>Closed</i></b></p> <p>Control Body was established as a separate Division within the Department of Inter-Municipal and Cross-Border Cooperation upon adoption of Regulation on Internal Organisation of MLGA.</p> <p>Control Body is fully functional and staffed by the Head of Control Body and two Financial Controllers.</p>	
7.	Lack of Inter-institutional agreements	NIPAC HOS CBC Body Control Body	<p><b><i>Partly implemented</i></b></p> <p>The draft inter-institutional agreements have been prepared with the support of CBIB+ but not endorsed yet.</p> <p>Level of priority: <i>Intermediate</i></p>	June 2020
8.	Internal audit unit in the Ministry of Local Government	HOS, CBC Body	<p><b><i>Partly implemented</i></b></p> <p>The audit of EU funds has been included in</p>	June 2020

	Administration (MLGA)		<p>Annual Audit Plan.</p> <p>The IAU Audit Manual has not been updated and trainings for audit of EU funds have not been provided for IAU staff.</p> <p>Level of priority: <i>Intermediate</i></p>	
9.	Lack of Job description and training policy in respect to the Annual Management Guarantee process	CBC Body	<p><b><i>Closed</i></b></p> <p>Procedures in respect to the Human resource management and Annual Management Guarantee have been developed in more details in Programme level control procedures approved by NAO. Tasks and responsibilities in respect to AMG are described through the PLCP.</p> <p>Several trainings session were organized for staff during 2018 and 2019 as presented in the training registers but it is necessary to ensure it continuously.</p>	
No	Findings identified during the System audit 2018	Body	Status in February 2019	New deadline
1.	Lack of adequate human resource documentation	Control Body	<p><b><i>Closed</i></b></p> <p>The OS KS developed and prepared the following documents:</p> <ol style="list-style-type: none"> <li>1. Substitution Plan and Substitution plan for CB and CBC body per case in order to provide the continuity of operation;</li> <li>2. Annual training plan for 2019 and individual trainings register and seminars.</li> <li>3. Work Load analysis for CBC and CB for 2019 and draft WLAs for 2020 and</li> <li>4. Recruitment plan</li> <li>5. Annual Work Plan for CBC and CB Body based on the annex of PLCP.</li> </ol>	
2.	Lack of Irregularity Officer and trainings in respect to irregularities	Control Body	<p><b><i>Partly implemented</i></b></p> <p>The Irregularity Officer was selected on 24/02/2020.</p> <p>Trainings for handling of irregularities and fraud are planned within TAGS under</p>	September 2020



			budget line 5.7.12 but have not been implemented yet.  Level of priority: <i>Minor</i>	
3.	Deficiencies in the Risk Management	Control Body	<p><b><i>Partly implemented</i></b></p> <p>OS KS appointed two Risk Managers one for CBC Body and one for CB to temporarily perform the risk management as an additional task until one Risk Manager is recruited.</p> <p>Control Body identified and assessed risks and filled out risk documentation which was submitted to OS MNE in January 2020.</p> <p>Trainings in respect to risk management are planned within TAGC under budget line 5.7.12 of TAGC but have not been implemented yet.</p> <p>Level of priority: <i>Minor</i></p>	September 2020

Out of 12 findings which remained open after the previous Annual activity report, 6 of them were closed during the follow up performed together with system audit in 2019 while during the follow up performed as a separate activity in February 2020 no findings were closed. Level of priority was reduced from intermediate to minor for 3 findings.

## **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**

Not applicable.

## **9. OVERALL LEVEL OF ASSURANCE**

The assurance on the proper functioning of the management and control system is normally based on the combined results of the system audit and the audit of operations. However, in the financial year 2019 audit of operations (transactions) were not performed as there were no expenditures declared to the Commission. Therefore, the overall level of assurance on the proper functioning of the management and control system is based on the results of the system audit.

As a result of the system audit performed (as described in section 4.2 and 4.4 above) and taking into account the results of the follow-up of the findings given in the previous years (section 7), the management, control and supervision systems is assessed as Category 2 - 'works, but some improvements are needed'. Therefore, we will issue an unqualified opinion on the proper functioning of the system. Bearing in mind that no expenditure were declared to the European Commission in the financial year 2019 and no audit of operation performed, we does not have all necessary elements to express the assurance on the legality and regularity of expenditure.

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 above. Based on the performed audit which encompassed all information included in the Annual Financial Reports or Statements/Annual Account we have obtained reasonable assurance on the completeness, accuracy and veracity of the information (amounts) included in the accounts submitted to the Commission for the accounting year 2019. Therefore, it is appropriate to issue an unqualified opinion on the reliability of Annual Financial Reports or Statements/Annual Account.

# 10. TABLE FOR DECLARED EXPENDITURE AND SAMPLE AUDITS

Not applicable.

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