



MONTENEGRO
AUDIT AUTHORITY

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ANNUAL AUDIT ACTIVITY REPORT
OF THE AUDIT AUTHORITY FOR
ANNUAL COUNTRY ACTION PROGRAMME FOR THE MONTENEGRO FOR
THE YEAR 2014, ANNUAL COUNTRY ACTION PROGRAMME FOR THE
MONTENEGRO FOR THE YEAR 2016, ANNUAL COUNTRY ACTION
PROGRAMME FOR THE MONTENEGRO FOR THE YEAR 2017 AND ANNUAL
COUNTRY ACTION PROGRAMME FOR THE MONTENEGRO FOR THE YEAR
2018

FOR THE PERIOD FROM 01 JANUARY UNTIL
31 DECEMBER 2020

Podgorica, March 2021

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List of abbreviations

AA	Audit Authority of Montenegro
AAAR	Annual Audit Activity Report
AAO	Annual Audit Opinion
AMD	Annual Management Declaration
CAP 2014	Annual Country Action Programme for Montenegro for the year 2014
CAP 2016	Annual Country Action Programme for Montenegro for the year 2016
CAP 2017	Annual Country Action Programme for Montenegro for the year 2017
CAP 2018	Annual Country Action Programme for Montenegro for the year 2018
CFCU	Central Finance and Contracting Unit
DMS	Directorate for Management Structure
EC	European Commission
EU	European Union
EUD	Delegation of the European Union
IA	Implementing Agency
IPA II	Instrument for Pre-Accession Assistance II perspective
IPA	Instrument for Pre-Accession Assistance
LTEC	Long Term Employment Contract
MCSS	Management, Control and Supervision System
MEC	Ministry of Economy
MF	Ministry of Finance
MLSW	Ministry of Labour and Social Welfare
MoP	Manual of Procedures
MSDT	Ministry of Sustainable Development and Tourism
MTMA	Ministry of Transport and Maritime Affairs
NAO SO	NAO Support Office
NAO	National Authorising Officer
NFD	National Fund Division
NIPAC	National IPA Coordinator
OG MNE	Official Gazette of Montenegro
OS	Operating Structure
PIU	Project Implementation Units
PWA	Public Works Administration
TEC	Temporary Employment Contract
WLA	Work Load Analysis

1. INTRODUCTION

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

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

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

The functions and responsibilities of the Audit Authority are set out in the Framework Agreement between Montenegro and the European Commission on the arrangements for implementation of Union financial assistance to Montenegro under the Instrument for Pre-accession Assistance (IPA II)- (OG MNE, No 5/2015)and in Commission Implementing Regulation (EU) No 447/2014 on the specific rules for implementing Regulation (EU) No 231/2014 of the European Parliament and of the Council establishing an Instrument for Pre-accession Assistance (IPA II).

The Audit Authority is responsible for verifying:

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

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

This report has been prepared by the Audit Authority of Montenegro. Other bodies were not included in preparation of this report given that AA does not rely on work of other bodies in performing its functions.

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 January to 31 December 2020.

In 2020 the Audit Authority carried out system audit for CAP 2014, CAP 2016, CAP 2017 and 2018. In the period covered by this report, the AA was not in a position to perform audit of operations for listed programs because in the period from 1 January 2020 to 31 December 2020 there were no declared expenditures to EC for those Programmes.

As a part of a system audit in January 2020 the AA performed follow-up of the findings and recommendations given in the course of previous audits. In the period February-March 2021 AA conducted also Audit of accounts for CAP 2014, CAP 2016, CAP 2017, CAP 2018 and CAP 2020.

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

The report covers Annual Country Action Programme for Montenegro for the year 2014 (No C (2014) 9837), Annual Country Action Programme for Montenegro for the year 2016 (No C (2016)8226), Annual Country Action Programme for Montenegro for the year 2017 (No C (2017/040-216; 2017/039-816) and Annual Country Action Programme for Montenegro for the year 2018 (No (CRIS) IPA/2018/040-218 and IPA/2018-040-220).

Within Annual Country Action Programme for Montenegro for the year 2014, 11 actions shall be implemented by indirect management which covers following policy areas: Democracy and Governance (5); Environment and Climate Action (1); Transport (2); Competitiveness and Innovation (3).

Financing Agreement for the Annual Country Action Programme for Montenegro (Objective 1 - part 1 and Objective 2- part 1) 2014/032-022 and 2014/032-803, for the year 2014 was signed on 10th December 2015.

The total estimated cost of Programme CAP 2014 is EUR 24,515,340.00 and the maximum Union contribution to this Programme is set at EUR 21,288,220.00.

By signing Addendum of the Financing Agreement for the Annual Country Action Programme for Montenegro (Objective 1 - part 1 and Objective 2- part 1) 2014/032-022 and 2014/032-803, for the year 2014 on 30/07/2018, the budget for Action 12 "Rehabilitation of the railway section Kos-Trebešica" is increased by 1.046.068,26 (national co-financing). According to that, the total estimated cost of Programme CAP 2014 is EUR 25,561,408.26 and the maximum Union contribution to this Programme is set at EUR 21,288,220.00.

Within Annual Country Action Programme for Montenegro for the year 2016, 2 actions shall be implemented by indirect management which covers following policy areas: Environment and Climate Action (1) and Competitiveness and Innovation (1).

Financing Agreement for the Annual Country Action Programme for Montenegro for the year 2016 was signed on 22nd December 2017. The total estimated cost of Programme CAP 2016 is EUR 26.544.530 and the maximum Union contribution to this Programme is set at EUR 22.948.900.

By signing Addendum to the Financing Agreement for the Annual Country Action Programme for Montenegro for the year 2016 on 31/07/2020 CAP 2016 allocates EUR 11.385.975 for capacity building and acquis related activities for the sector Environment and Climate Action and EUR 6 288 900 for strengthening the Competitiveness and innovation sector of Montenegro. Within the education employment and social policies sector, EUR 5.334.025 is allocated for Support to COVID-19 crisis response in Montenegro, following the outbreak of worldwide COVID-19 pandemic (Detect Management).

According to that, the total estimated cost of Programme CAP 2016 covered by Financing Agreement under indirect management is EUR 20.316.265,00 and the maximum Union contribution to this Programme is set at EUR 17.614.875,00.

Within CAP 2017, 3 actions shall be implemented by indirect management which covers following policy areas: Democracy and Governance (2) and Transport (1).

Financing Agreement for the Annual Country Action Programme for Montenegro for the year 2017 was signed on 17th December 2018. The total estimated cost of Programme CAP 2017 is EUR 16,156,529 and the maximum Union contribution to this Programme is set at EUR 13,511,103.

Within CAP 2018, 3 actions shall be implemented by indirect management which covers following policy areas: Democracy and Governance, (1) Rule of Law and Fundamental Rights and (1) Education, Employment and Social Policies (1).

Financing Agreement for the Annual Country Action Programme for Montenegro for the year 2018 was signed on 2nd December 2019. The total estimated cost of Programme CAP 2018 is EUR 38.777.248,8 and the maximum Union contribution to this Programme is set at EUR 36.186.977.

By signing Addendum N°1 to the Financing Agreement for the Annual Country Action Programme for Montenegro for the year 2018 on 30/11/2020 CAP 2018 allocates the complete amount of assistance of 9.5 million EUR which was approved for the sector Agriculture and Rural Development through the approved Financing Agreement. Funds will be used for an increase of support for the area of public health, i.e. for the construction of the building for infectious disease clinic and dermatovenerology, as well as for procurement of equipment for the network of microbiology laboratories throughout Montenegro.

By signing Addendum N°2 to the Financing Agreement for the Annual Country Action Programme for Montenegro for the year 2018 on 22/02/2021 the amendment of the result 7 under action *Strengthening of quality and approach to health and social services* is foreseen which refers to procurement of the device which conducts simultaneous analyses of a great number of respiratory samples, in the amount of 800.000 EUR.

The overall value of the amended program is 38,247,865 EUR out of which allocated EU funds amount to 36,186,977 EUR, while it is necessary to allocate 2.060.888 EUR for the needs of national co-financing from the budget.

Structures and bodies being part of the management, control and supervision system of those Programmes are, as follows:

- 1) The National IPA Co-ordinator (NIPAC)
- 2) The National Authorising Officer (NAO)
- 3) The Management structure:
 - The National Fund
 - The NAO support office
- 4) The Operating Structure:
 - The NIPAC office
 - Implementing Agencies: Central Finance and Contracting Unit (CFCU) and Public Works Administration (PWA)
 - PIUs of the line ministries: (MF, MSDT, MEC, MTMA for CAP 2014); (MSDT and MEC for CAP 2016); (MF and MTMA for CAP 2017); (MF, Ministry of Justice, Ministry of Interior and Ministry of Health for CAP 2018); (MEC, MLSW, Ministry of Science for CAP 2020).

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

The AAAR was prepared as a result of audit activities carried out during the 2020. During 2020 the AA carried out system audit for CAP 2014, CAP 2016, CAP 2017 and CAP 2018. During performance of system audit in 2020, Audit Authority performed follow-up of the findings and recommendations given in the course of previous audits. Results of follow-up are covered in the system audit report. In the period from January – March 2021 AA performed follow-up of the findings and recommendations given during audit conducted in the period covered by this report, follow-up of the findings and recommendations given in the course of previous audits and audit of the annual financial reports for 2020.

With a view to drawing up an audit opinion, Audit Authority assessed results of audit activities from the performed audit of management, control and supervision system (including follow-up), audit of accounts and the consistency of the management declaration with regard to performed audit work.

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

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

2. SUBSTANTIAL CHANGES IN MANAGEMENT AND CONTROL SYSTEM

AA regularly monitored and gathered information on changes in the Management, Control and Supervision System (MCSS) and we reported on significant changes in MCSS in our AAARs. In our last AAAR we reported about the significant changes in the Management, Control and Supervision System (MCSS) which occurred until the end of December 2019.

In this AAAR we described significant personal and organizational changes occurred in the period from 1st January to 31st December 2020.

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 2020 the NAO/Deputy NAO informed the European Commission and Audit Authority about substantial and planned changes in the system.

Personal changes:

- On the session held on 30th April 2020, the Government of Montenegro gave its consent to the proposal regarding the temporary appointment of State Chief Negotiator - Mr Aleksandar Drljević on the position of the National IPA Coordinator. NAO informed European Commission and Audit Authority on this personal change on 13th May 2020. (Letter No: 01-8530/1).
- Mr Igor Građević terminated his engagement as SPO within PIU MSDT. Change occurred on May 28th 2020.
- Ms Ivana Vojinović started her engagement as SPO within PIU MSDT. Change occurred on June 5th 2020.
- On the Government session from October 15th 2020, Mr Nemanja Katnić resigned from the position of the State secretary in the Ministry of Finance and National Authorizing Officer (NAO). Change occurred on October 15th 2020.
- Ms Ljiljana Simović resigned from the HOS/SPO function within Ministry of Labour and Social Welfare on October 1st 2020. Change occurred in October 2020.
- Mr Radosav Babić terminated his engagement on the position of the SPO within Ministry of Economy. Change occurred in November 2020.

- Mr Aleksandar Drljević terminated the mandate on the position of the National IPA Coordinator. Change occurred in December 2020.
- Ms Zorka Kordić was appointed to perform the role of the new State Chief Negotiator and National IPA Coordinator. Change occurred on December 7th 2020. NAO informed European Commission and Audit Authority on this personal change on 22nd January 2021. (Letter No: 01-817/1).

Organizational changes:

- With the formation of the new Government of Montenegro, the Decree on the organisation and manner of work of the state administration was adopted on December 7th 2020. The mentioned Decree has significantly changed the organization of the entire state administration, reflecting on IPA units within reorganized ministries. Change occurred on December 7th 2020, and EC was informed on the occurred through the submitted NAO Progress report.

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.

All the changes were assessed by Audit Authority and we can confirm that all changes are in compliance with applicable regulations.

The changes that occurred in MCSS in 2020 do not have an impact on the audit work.

3. CHANGES TO THE AUDIT STRATEGY

3.1. Details of any changes that have been made to the audit strategy or are proposed, and of the reasons for them. In particular, indicate any change to the sampling method used for the audit of operations (see paragraph 5 below).

Audit Strategy 2020–2022 for the Annual Country Action Programme for Montenegro for the year 2014, Annual Country Action Programme for Montenegro for the year 2016 and Annual Country Action Programme for Montenegro for the year 2017 was prepared in November 2019. The Auditor General of Audit Authority approved it and sent it to the European Commission, with a copy to National Authorising Officer, on November 29th 2019.

The Financing Agreement for the Annual Country Action Programme for Montenegro for the year 2018 was signed on 2nd December 2019. Having in mind that management and control system established for CAP 2018 has been set up on the basis of CAP 2014, CAP 2016 and CAP 2017 Audit Authority updated Audit Strategy 2020 – 2022 which covers all four Annual Country Action Programmes for Montenegro (CAP 2014, CAP 2016, CAP 2017 and CAP 2018), in compliance with Clause 5 of FWA.

Updated Audit Strategy 2020-2022 for the IPA II 2014-2020 for the CAP 2014, CAP 2016, CAP 2017 and CAP 2018 was submitted to European Commission - DG Near on 24th June 2020. Also, new risk assessment has been done.

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

Not applicable.

4. SYSTEMS AUDITS

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

In accordance with the Update Audit Strategy 2020-2022 for the IPA II 2014-2020 for the Annual Country Action Programme for Montenegro for the year 2014 (hereinafter: CAP 2014), Annual Country Action Programme for Montenegro for the year 2016 (hereinafter: CAP 2016), Annual Country Action Programme for Montenegro for the year 2017 (hereinafter: CAP 2017) and Annual Country Action Programme for Montenegro for the year 2018 (hereinafter: CAP 2018) approved by Deputy Auditor General and submitted to EC on 24th June 2020, the AA of Montenegro conducted an audit of the management, control and supervision system (hereinafter MCSS) established in the bodies of Operating structure: Ministry of Justice (PIU), Ministry of Health (PIU) and Ministry of the Interior (PIU).

4.2 Summary table of the audits carried out

During the strategic audit planning (Update Audit Strategy 2020-2022 for the IPA II 2014-2020 for the CAP 2014, CAP 2016, CAP 2017 and CAP 2018 (June 2020) for the purpose of defining audit areas the Audit Authority performed risk assessment for each body of CAP 2014, CAP 2016, CAP 2017 and CAP 2018 at the key requirement/process/function level (further: process level). We identified and assessed issues and processes that are significant for the audit and that could be common for all or several bodies that are participating in management and implementation of programme.

Based on results of risk assessment performed during preparation of the Update Audit Strategy 2020-2022 we decided that during 2020 bodies whose categorized risk score is medium will be audited. According to the above mentioned, audit included the following bodies: Ministry of Justice (PIU), Ministry of Health (PIU) and Ministry of the Interior (PIU), and with the general audit objective to verify the effective and efficient functioning of the management, control and supervision system.

The key requirements/ICFRs which were under the scope of audit are as follow:

- Ministry of Justice/PIU: Control Environment, Risk Management
- Ministry of Health/PIU: Control Environment, Risk Management
- Ministry of the Interior/PIU: Control Environment, Risk Management

Also, in Updated Audit strategy 2020-2022 we stated that during the individual audit engagement planning auditors would define the key functions/processes within each key requirement which will be encompassed by the appropriate audit activities in particular body in 2020. The scope of each individual audit will depend on level of implementation of Programmes at the time of audit performing. Apart from that, follow-up of recommendations from the previous system audits is going to be conducted within the planned system audits for 2020.

In accordance with above mentioned, during preparation of system audit engagement we performed the risk assessment in order to identify whether the ICFR selected are still risky and to assess which sub-criteria will be covered by the audit and through which process.

The Audit Authority shall ensure that each body is audited in respect of each control element at least once during the programming period as a whole. Each system audit includes the follow-up of previous years' system audits.

Having in mind that for the last three years we carried out system audits which covered all bodies of Managing and Operating structure as well as key control elements set out in Annex B FWA, during 2020 we will focus on system audit at three PIUs related to CAP 2018.

Based on the audit strategy, understanding of audit environment and performed risk assessment (per each body), the following audit areas (ICFR, sub-criteria, processes) as well as specific audit/compliance objective per audit area, were covered during the system audit:

- Ministry of Justice/PIU:
 1. Control environment
 - (a) Ethics and integrity policies
 - (b) Supervision by management of tasks delegated to subordinates
 - (c) Establishment of structures, reporting lines, and authorities and responsibilities
 - (d) Staff planning, recruitment, retention, training and appraisal
 - (e) Accountability for allocated tasks and responsibilities
 2. Risk management
 - (a) Objective setting
 - (b) Risk identification, assessment and response
 - (c) Fraud risk
 - (d) Identification and assessment of changes affecting the system of internal controls
- Ministry of Health/PIU:
 1. Control environment
 - (a) Ethics and integrity policies
 - (b) Supervision by management of tasks delegated to subordinates
 - (c) Establishment of structures, reporting lines, and authorities and

responsibilities

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

(e) Accountability for allocated tasks and responsibilities

2. Risk management

(a) Objective setting

(b) Risk identification, assessment and response

(c) Fraud risk

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

➤ Ministry of the Interior/PIU:

1. Control environment

(a) Ethics and integrity policies

(b) Supervision by management of tasks delegated to subordinates

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

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

(e) Accountability for allocated tasks and responsibilities

2. Risk management

(a) Objective setting

(b) Risk identification, assessment and response

(c) Fraud risk

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

Additionally, during each individual system audit the follow-up on recommendations from previous audits is regularly performed, which is then a constituent part of each individual system audit report.

The AA performed follow-up of the findings and recommendations that remained opened from the previous audits.

Results of performed follow-up are that 1 out of 8 findings are closed.

Described in details in point 7 of this Report.

Summary of the audit carried out:

Audit period	Programme (CCI and title)	Audit Body	Audited Body(ies)	Date of the audit	Scope of the audit	Principal findings and conclusions	Problems of systemic character and measures taken	Estimated financial impact (if applicable)	State of follow-up (closed/or not)
01.01.2019-31.12.2019	Annual Country Action Programme for Montenegro for the year 2014 – C (2014) 9387 Annual Country Action Programme for Montenegro for the year 2016 – C (2016)8226 Annual Country Action Programme for Montenegro	Audit Authority of Montenegro	Ministry of Justice/PIU	July to September 2020	1. Control environment (a) Ethics and integrity policies (b) Supervision by management of tasks delegated to subordinates (c) Establishment of structures, reporting lines, and authorities and responsibilities (d) Staff planning, recruitment, retention, training and appraisal (e) Accountability for allocated tasks and responsibilities 2. Risk management (a) Objective setting (b) Risk identification, assessment and response (c) Fraud risk (d) Identification and assessment of changes affecting the system of internal controls	Lack of staff <i>IFCR 1(d)</i> For details please see further below the section 4.4 of this AAAR.	n/a	n/a	Open

Annual Audit Activity Report for CAP 2014;2016;2017;2018

	for the year 2017 – C (2017/040-216;2017/039-816)		Ministry of Health/PIU		1. Control environment (a) Ethics and integrity policies (b) Supervision by management of tasks delegated to subordinates (c) Establishment of structures, reporting lines, and authorities and responsibilities (d) Staff planning, recruitment, retention, training and appraisal (e) Accountability for allocated tasks and responsibilities 2. Risk management (a) Objective setting (b) Risk identification, assessment and response (c) Fraud risk (d) Identification and assessment of changes affecting the system of internal controls	Insufficient trained staff ICFR: 1(d); For details please see further below the section 4.4 of this AAAR.	n/a	n/a	Open
	Annual Country Action Programme for Montenegro for the year 2018 (No (CRIS) IPA/2018/040-218 and IPA/2018-040-220)		Ministry of the Interior/PIU		1. Control environment (a) Ethics and integrity policies (b) Supervision by management of tasks delegated to subordinates (c) Establishment of structures, reporting lines, and authorities and responsibilities (d) Staff planning, recruitment, retention, training and appraisal (e) Accountability for allocated tasks and responsibilities 2. Risk management (a) Objective setting (b) Risk identification, assessment and response (c) Fraud risk (d) Identification and assessment of changes affecting the system of internal controls	Lack of staff and segregation of duties ICFR: 1(b); 1(d); Insufficient trained staff ICFR:1(d); For details please see further below the section 4.4 of this AAAR.	n/a	n/a	Open Open

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

During the strategic audit planning (Update Audit Strategy 2020-2022 for the IPA II 2014-2020 for the CAP 2014, CAP 2016, CAP 2017 and CAP 2018) for the purpose of defining audit areas the Audit Authority performed risk assessment for each body of those programmes at the key requirement/process/function level (further: process level). We identified and assessed issues and processes that are significant for the audit and that could be common for all or several bodies that are participating in management and implementation of programme.

Based on results of risk assessment performed during preparation of the Update Audit Strategy 2020-2022 we decided that during 2020 bodies whose total risk score is over 40% will be audited. According to the above mentioned, audit included the following bodies: Ministry of Justice (PIU), Ministry of Health (PIU) and Ministry of the Interior (PIU), and with the general audit objective to verify the effective and efficient functioning of the management, control and supervision system.

During preparation of system audit engagement, we performed the risk assessment in order to identify whether the ICFR selected are still risky and to assess which sub-criteria will be covered by the audit and through which process.

The Audit Authority shall ensure that each body is audited in respect of each control element at least once during the programming period as a whole. Each system audit includes the follow-up of previous years' system audits.

Having in mind that for the last three years we carried out system audits which covered all bodies of Managing and Operating structure as well as key control elements set out in Annex B FWA, during 2020 we focused on system audit at three PIUs related to CAP 2018.

Based on the audit strategy, understanding of audit environment and performed risk assessment (per each body), the following audit areas (ICFR, sub-criteria, processes) as well as specific audit/compliance objective per audit area, were covered during the system audit:

IPA Body	Ministry of Justice/PIU	Ministry of Health/PIU	Ministry of the Interior/PIU
Audit area			
1(a)	X	X	X
1(b)	X	X	X
1(c)	X	X	X
1(d)	X	X	X
1(e)	X	X	X
2(a)	X	X	X
2(b)	X	X	X
2(c)	X	X	X
2(d)	X	X	X

4.4 Principal findings / Follow-up / Corrective measures applied or recommended and Conclusion

The outcome of the audit process is summarized in final system audit report that provides findings and recommendation which were identified during the audit process in bodies of Management Structure and Operating structure. Findings were categorized according to level of importance to major, intermediate and minor findings. During this audit engagement we identified in total 4 findings as follows:

➤ ***Finding No 1: Lack of staff in the Ministry of Justice***

ICF requirement: 1 (d)

Level of priority: Intermediate

Body/-ies concerned by the finding: Ministry of Justice - PIU

During the audit performed, based on enclosed documentation and conducted interviews with the staff of Ministry of Justice, we determined the following:

The Work Load Analysis (WLA) for 2020 have been prepared and signed. WLAs for the 2021 and 2022 have been prepared in accordance with the MoP procedures.

According to the WLA (for 2020) 3 job positions are foreseen in order to satisfy all activities of the PIU. Also, the valid version of Rulebook on Internal Organisation and Systematisation of Ministry of Justice predicts 3 positions. The current number of staff in the PIU is 2. In order to implement the activities of the PIU timely and effectively it is necessary to fill a vacant position as soon as possible and in accordance with the requirements prescribed in Rulebook on Internal Organisation and Systematisation.

During September 2020, Ministry of Justice took certain measures in order to fill the vacant position, is in accordance with the Recruitment Plan.

Nevertheless, until the vacancy is filled the number of staff remains insufficient and it is hard to reach all the objectives which are set.

Recommendation: Our recommendation is to fill a vacant position as soon as possible and in accordance with the requirements prescribed in the Rulebook on Internal Organisation and Systematisation and needs expressed in the Work Load Analysis.

➤ ***Finding No 2: Lack of staff and segregation of duties in the Ministry of the Interior***

ICF requirement: 1 (b); 1 (d)

Level of priority: Intermediate

Body/-ies concerned by the finding: Ministry of the Interior - PIU

According to the Rulebook on internal organization and systematization of the Ministry of Interior, in Directorate for European integration and coordination of pre-accession support of EU, 5 job positions are foreseen. By the insight into WLA, number of needed employees for 2020 year is 3. The conclusion deriving from the AWP and the WLA are presented in a form of Recruitment Plan. In the period of performing system audit the total number of employees in PIU of Ministry of Interior was 2.

Also, since three documents AWP, SAM and QMR are prepared and approved by the same person, supervision is not ensured by applying »four eyes« principle and double signature is not respected.

In order to ensure segregation of duties and four eyes principle and considering the needs which are expressed in WLA for 2020, it is necessary to employ staff in accordance with the requirements which are prescribed in Rulebook on Internal Organization and Systematization of the Ministry of Interior.

Recommendation: In order to ensure effective functioning of the PIU and in order to ensure segregation of duties and four eyes principle we recommend taking the measures of filling the vacant positions foreseen in the Rulebook of internal organization and systematization and needs expressed in Work Load Analysis.

➤ ***Finding No 3: Insufficient trained staff – Ministry of the Interior***

ICF requirement: 1 (d)

Level of priority: Intermediate

Body/-ies concerned by the finding: Ministry of the Interior - PIU

According to MoP (Chapter – Internal Organization and HR) “All employees are encouraged to attend conferences, seminars and trainings that would enhance their professional skills. Participation shall be approved by their superiors and be demonstrably beneficial to their work”.

Based on audit performed, by the insight into requested documentation and in accordance with the interviews conducted with the staff, we concluded the following: current and future skill requirements have been accurately identified. Training Needs Analysis Questionnaires were completed and signed by the employees. Annual Training Plan for the year 2020 is based on the Training Needs Analysis Questionnaire. Still, we determined that appropriate action is not being

taken to ensure that staff are appropriately developed and trained to meet the requirements. From the annexes related to trainings (Cumulative Training Register, Training register per employee) we concluded that employees don't have an adequate number of trainings.

Training and education are the basis of what we call human resource development, because they provide employees with the necessary information and skills in order to do a successful job.

Recommendation: We recommend organizing appropriate education and trainings for staff in order to train them and enable them to perform assigned tasks in the best manner.

➤ ***Finding No 4: Insufficient trained staff – Ministry of Health***

ICF requirement: 1 (d)

Level of priority: Intermediate

Body/-ies concerned by the finding: Ministry of Health - PIU

According to MoP (Chapter – Internal Organization and HR) “All employees are encouraged to attend conferences, seminars and trainings that would enhance their professional skills. Participation shall be approved by their superiors and be demonstrably beneficial to their work”

Based on audit performed, by the insight into requested documentation and in accordance with the interviews conducted with the staff, we concluded the following: current and future skill requirements have been accurately identified. Training Needs Analysis Questionnaire was completed and signed by the employees. Annual training plan for the year 2020 is based on the Training Needs Analysis Questionnaire. Still, we determined that appropriate action is not being taken to ensure that staff are appropriately developed and trained to meet the requirements. From the annexes related to trainings (Cumulative Training Register, Training register per employee) we concluded that employees don't have adequate number of trainings. Out of five employees three didn't have any training at all.

Training and education are the basis of what we call human resource development, because they provide employees with the necessary information and skills in order to do a successful job.

Recommendation: We recommend organizing appropriate education and trainings for staff in order to train them and enable them to perform assigned tasks in the best manner.

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

Not applicable.

4.6 Level of assurance obtained following the system audits and justification.

Considering the assessment of the management, control and supervision systems established for IPA II CAP 2014, CAP 2016, CAP 2017 and CAP 2018 we have reasonable grounds to state that the MCSS functions properly and in accordance with the requirements of the Framework Agreement. Our assessment of the MCSS for this Programme is **works, but some improvement(s) are needed**. Therefore, the level of assurance obtained from the system is average.

Based on the individual score for each audited system body, an overall conclusion on the MCSS of the Programmes is made. The assessment is presented in the table below:

IPA Body	Works well. No or only minor improvement(s) are needed	Works, but some improvement(s) are needed	Works partially; substantial improvement(s) are needed	Essentially does not work
Ministry of Justice/PIU	X			
Ministry of Health/PIU	X			
Ministry of the Interior/PIU		X		
Follow-up CAP 2014, CAP 2016 and CAP 2017		X		

5. AUDITS OF SAMPLES OF TRANSACTIONS

The AA was not in a position to perform audit of operations, because in the period from 1 January 2020 until 31 December 2020 there were no declared expenditures to EC.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

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

In accordance with the Update Audit Strategy for the IPA II 2014-2020 for the Annual Country Action Programmes for Montenegro for the years 2014, 2016, 2017 and 2018 submitted to European Commission - DG Near 24th June 2020 the Audit Authority of Montenegro carried out an audit of completeness, accuracy and veracity of the annual financial reports or statements (audit of accounts) for above mentioned programmes for the reference financial year 2020, i.e. the accounting year from 1st January to 31st December 2020, issued by NAO on 15th February 2021 (Final Report on Audit of Accounts).

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.

In the context of the Audit of Accounts, and for the purposes of the Audit opinion, in order to reach a conclusion on the completeness, accuracy and veracity of the annual financial reports or statements, the Audit Authority verifies whether all accounting information presented in the Annual financial reports or statements/annual accounts which are submitted to the Commission is prepared, in all material respects, in accordance with the applicable Financial reporting framework. For the purpose of expressing the Annual Audit Opinion, in order to conclude that the Annual Financial Report gives a true and fair view, the Audit Authority shall verify that all elements required by models stipulated in Annex IV of the Financing Agreements concerning the CAP for the year 2014, 2016, 2017, 2018 and 2020, i.e. cumulative amounts declared from the programmes, are correctly included in the accounts and correspond to the supporting accounting records maintained by bodies in the National Fund Division (NF) and Implementing Agencies / Directorate

for Finance and Contracting of the EU Assistance Funds (CFCU) and Public Work Administration (PWA).

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

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

In order to achieve the overall objective, the Audit Authority took into account the results from the System audits regarding effective and efficient functioning of the management, control and supervision system (MCSS) in the process of preparing and submitting of the Annual Financial Report (AFR) carried out in the National Fund Division (NF) and Implementing Agencies (CFCU and PWA).

Audit was carried out considering the results of System audits for the CAP 2014, CAP 2016, CAP 2017 and CAP 2018 by Audit Authority.

During 2020 NAO did not submit a request for funds including a “Declaration of expenditure”, and therefore AA was not in a position to perform audit of operations/transactions.

AA performed for the purposes of audit of accounts additional tests on the sample of transactions included in financial reports/accounts. Selecting the sample for testing was performed according to the methodology defined by EC Guidance on sampling methods for audit authorities and Manual of Procedures of AA. Population consists of transactions per Programme at reference period, 01/01/2020 - 31/12/2020. We stratified the whole population in strata per Programme and used the random method to select the sample in each stratum. For Program CAP 2014 the total number of units in population was 17 out of which we selected 6; within CAP 2016 we selected 5 units out of 13, and for CAP 2017 we selected 3 units out of 8. The purpose was to test sample of transactions included in financial reports/accounts and to check whether it corresponded with the amounts specified in the verified documents collected from NF and IA/CFCU and PWA.

Details about transactions per Programme we have selected are given in the table below:

No	Programme	No of Contract	Payment order date	Amount paid
1	CAP 2014	CFCU/MNE/056	14.02.2020	218.818,28
2	CAP 2014	CFCU/MNE/060	06.03.2020.	226.842,77
3	CAP 2014	CFCU/MNE/074	14.09.2020.	669.100,00
4	CAP 2014	KOS-TREB WKS/101-1560/1-7656/1	17.02.2020.	635.538,47
5	CAP 2014	KOS-TREB WKS/101-1560/1-7656/1	04.05.2020.	1.040.198,85
6	CAP 2014	KOS-TREB SER/101-1560/1-7496/1	29.06.2020.	41.494,83
7.	CAP 2016	CFCU/MNE/125	02.06.2020.	141.606,00
8.	CAP 2016	CFCU/MNE/126	02.06.2020.	77.786,80
9	CAP 2016	CFCU/MNE/102	31.12.2020.	90.430,00
10	CAP 2016	PWA/MNE/IPAII/CAP16/SER/01-7467/1	20.08.2020.	479.900,00
11	CAP 2016	PWA/MNE/IPAII/CAP16/SER/01-7467/1	15.10.2020.	180.125,28
12	CAP 2017	CFCU/MNE/145	04.09.2020.	7.920,00
13	CAP 2017	CFCU/MNE/154	29.12.2020.	77.490,00
14	CAP 2017	PWA/MNE/IPAII/CAP17/SER/01-8132/1	17.06.2020.	731.980,00

Audit verifications were performed taking into account information No 14-229/1 on 15th January 2021 provided by the National Fund Division (NF) for the Year-end cut-off report, Financial forecasts and Forecast of likely payment requests, as well as relevant supporting documents for the CAP programmes for years 2014-2020 submitted to the Commission in accordance with the DG NEAR Information letter on preparation annual accounts.

The outcome of the audit process is summarized in Final Audit Account report that provides findings and recommendation which were identified during the audit process in NF and IA/CFCU and IA/PWA. Findings were categorized according to level of importance to major, intermediate and minor findings. During this audit engagement we identified in total 2 findings as follows:

➤ ***Finding No 1: Reported unpaid amounts as cost recognized in AFR***

Programme: CAP 2014 (2014/032-803)

No of Contract: CFCU/MNE/058 and KOS-TREB SER/101-1560/1-7496/1

Level of priority: Intermediate

Body/-ies concerned by the finding: NF, IA/PWA and IA/CFCU

Article 4 section (5) of the General Conditions of IPA II Financing Agreements (FAs) lists four conditions to declare costs as “recognized”: they must be (i) incurred, (ii) paid, (iii) accepted and (iv) correspond to actual costs proven by supporting documents.

By the insight into AFR1 for 2020 IPA II Action Programmes for CAP 2014/032-803 Total Costs Recognised are presented in the amounts as follows: EU contribution 8.240.197,17€; National contribution 2.074.314,92€.

Based on the audit performed, by the insight into requested documentation and by testing, we determined that amount of costs recognized, contained in AFR1 was higher (in the total amount of 14.028,03€) in relation to the amount we determined was recognized. In accounting system of

IA following Costs are recorded: EU contribution 8.227.567,15€ National contribution 2.072.916,91€ which satisfy all conditions prescribed in the Financing Agreement for costs recognized.

The amount of 14.028,03€ was recorded in the accounting system of the IA as a cost incurred and accepted and corresponds to actual costs which are proved through supporting documentation but this is a cost that has not been paid until 31/12/2020.

According to the above mentioned, the amount of the 14.028,03€ should not have been included in the cost recognized because the cost does not satisfy all conditions which are prescribed in the Financing Agreement.

Recommendation: We recommend preparation and presentation of the annual financial reports in a manner that total amount of costs recognised is consisted exclusively of costs which are recorded in accounting system as cost recognised, i.e. costs which have been incurred, accepted, paid and correspond to actual costs verified by supporting documents. Costs which do not satisfy all of four mentioned conditions should not be presented as costs recognised.

➤ ***Finding No 2: Incorrectly presented item “Total Contracted Amount” in AFR1***

Programme: CAP 2016 (2016/037-896)

Level of priority: Intermediate

Body/-ies concerned by the finding: NF, IA/PWA and IA/CFCU

According to the requirements of Annex 4 (a) Financing agreement for CAP 2016 in the field no.4 Total Amount Contracted the amounts need to be presented by the sources of financing:

- EU contribution
- National contribution and
- Other sources

By the insight into in AFR1 for 2020 IPA II Action Programmes CAP 2016 in the field Total Amount Contracted the amount of 12.305.591,39€ was presented, out of which EU contribution is 10.714.844,95€; National contribution 1.590.746,44€ and Other sources 0,00€.

The total contracted amount which is recorded in the accounting system of PWA and CFCU for CAP 2016 is 12.792.796,96€ out of which EU contribution is 10.714.844,98€, national contribution 1.590.746,51€ and other sources 487.205,47€.

Based on the audit performed, by the insight into requested documentation, we concluded that in AFR1 for 2020 IPA II Action Programmes CAP 2016 the amount of Other sources was not presented in the field Total Amount Contracted.

Also, we determined that data related to EU contribution and National contribution presented in AFR1 in the field Total Amount Contracted was not the same as in the accounting systems of PWA and CFCU.

Recommendation: We recommend presenting the total contracted amounts by sources of financing in Annual financial report as it is specified in Annex 4 (a) Financing agreement which correspond to the amounts entered in the accounting systems of NF and IAs for CAP 2016.

The summarized list of findings identified during the audit of account are presented in the following table:

Financing Agreement contract number	Total Costs Recognized		
	A	B	Difference =A-B
CAP 2014/032-803	Annual Financial Report	Record in accounting system IA	
EU contribution	8.240.197,17	8.227.567,15	12.630,02
National contribution	2.074.314,92	2.072.916,91	1.398,01
Other sources	0,00	0,00	0,00
Total	10.314.512,09	10.300.484,06	14.028,03
CAP 2016/037-896	Total Amount Contracted		
EU contribution	10.714.844,95	10.714.844,98	- 0,03
National contribution	1.590.746,44	1.590.746,51	- 0,07
Other sources	0,00	487.205,47	- 487.205,47
Total	12.305.591,39	12.792.796,96	- 487.205,57

Based on the audit work performed we have obtained reasonable assurance on reliability of the annual financial reports or statements/annual accounts for the accounting year 2020 for: CAP 2014 (2014/032/022), CAP 2017(2017/040-216 and 2017/039-816) and CAP 2018 (2018/040-218 and 2018/040-220) and CAP 2020 (2020/042-142 and 2020/042-145), and therefore we cannot confirm completeness, accuracy and veracity of the amounts declared in the accounts submitted to the European Commission for the accounting year 2020 for: CAP 2014 (2014/032-803) and CAP 2016 (2016/037-896) for the reasons presented in the findings.

The mistake in the reporting appears due to the different understanding of the particular cost categories (cost recognised), as well as omission of the NF to enter other sources in AFR which are properly recorded in the accounting system of IAs.

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 engagements (audit of operations) have resulted in financial corrections regarding the reference period for CAP 2014. The audit finding issued within the Audit of operations report No: 3011-2-06-71/3 from 20th February 2020, with financial correction in amount of 262,50€ (EU part 236,25€, national contribution 26,25€). Bearing in mind that Final

Report on audit of operations was issued on 20th February 2020, annual accounts are not corrected in relation with determined financial correction by AA.

By the audit of accounts for 2020, we checked the conduct of the correction given in the audit of operations.

Based on data analysis of documentation, we concluded that the correction in the amount of 262.50 EUR was conducted and the finding is closed.

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

Not applicable.

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.

According to the AA's Manual of Procedures "The objective of the follow-up process is to determine whether the issues rose in the audit have been adequately addressed and the audit report recommendations are implemented in a timely manner". In general, the follow-up of the audit findings and errors shall be performed annually, and the information provided in the Annual Audit Activity Report. The follow-up can be performed as a part of another audit engagement, or as a separate activity before issuing the Annual Audit Activity Report and Annual Audit Opinion. Follow-up by AA is defined as a process by which it determines the adequacy, effectiveness, and timeliness of actions taken by management on reported errors and audit findings, including corrective and preventive measures applied, application of any financial adjustments and remedial action plans. AA should ascertain that actions taken on audit findings remedy the underlying conditions. The same standards for audit evidence shall be applied to follow-up work as those used for documenting original audit work. The results of the follow-up shall be documented in the "Audit recommendation status report".

During system audit in 2020, the follow-up of findings and recommendations from previous audit was performed, and the results of the follow-up is the constituent part of system audit report. Therefore, the follow up as a part of system audit in all bodies was performed regarding the findings and recommendations given in system audit report conducted in these bodies during 2017, 2018 and 2019. After receiving the responses and the documentation on the fulfilment of recommendations from all bodies, we conducted interviews with the employees responsible for the management and implementation of the operational programme in bodies in which the interview was needed. After analyses and reviewing the submitted documentation, we assessed the

status of the individual recommendation with the respective explanation. Results of performed follow-up are that 1 out of 8 findings are closed and given as follows:

Results of performed follow-up – closed finding (1)

- Inadequate performed control activities

Results of performed follow-up – still open findings (7)

- Lack of staff, recruitment and retention policy
- IT Policy - Backup of data
- Contingency plan developed
- Internal audit capacities
- Reports on implementation
- Accounting procedures ensuring complete, accurate and transparent accounting following internationally accepted accounting principles
- Lack of segregation of duties

Follow-up of the findings and recommendations that remained opened from the previous audits was performed as a part of another audit engagement, or as a separate activity in the period January – February 2021, before issuing the Annual Audit Activity Report and Annual Audit Opinion. Results of performed follow-up is unchanged.

Further below we outline the description of the most important findings identified and conclusions reached through audits, recommendations provided for correcting the findings as well as information on the measures undertaken for the purpose of resolving the findings with regards to the audited processes and individual bodies and authorities within the system.

Principal findings identified in the particular audit areas are as follows:

- ***Inadequate performed control activities***

ICF requirement: 3 (a)

Level of priority: Intermediate

Body/-ies concerned by the finding: PWA

According to the requirements of Annex B – Internal Control Framework from Framework Agreement:

3a (iii) “Procedures, including checklists, for each step of procurement and grant calls (e.g. technical specifications, evaluation committees, reporting of exceptions etc.) ensuring each member of staff is clear as to their responsibilities in these areas”

3a (xiii) “Segregation of duties ensuring that different tasks in the life of the same operation are allocated to different staff to ensure automatic cross-checking controls”

Additionally, according to the MoP procedure V1.0, this was valid version at the time of performing contract procedures for Works contract – Rehabilitation of the railway section Kos-Trebešica:

“Procedures specific to each type of procurement are detailed and are supported by checklists which should be applied before forwarding any documents to the EUD for ex-ante control”

The detailed checklists are given as annexes in the MoP procedures V.1.0, depending on the type of contract.

During the audit performed and based on the insight into submitted documentation for Work contract – Rehabilitation of the railway section Kos-Trebešica, we determined the following:

- CL for Contract Notice was filled only by CM1. The CL was signed by CM1, CM2, QAS, Head of QAS but not signed by the Head of CD.
- CL for Tender Dossier was filled only by CM1. The CL was signed by CM1, CM2, QAS, but not signed by the Head of CD and Head of QAS.
- CL for EC composition was filled by CM1. The CL was signed by CM1, CM2, QAS, Head of QAS but not signed by the Head of CD. 17
- CL for Evaluation Report was filled by CM1. The CL was signed by CM1, CM2 QAS, Head of QAS but not signed by the Head of CD.
- CL for Contract Dossier was filled by CM1. The CL was signed by CM1, CM2 QAS, Head of QAS but not signed by the Head of CD.
- CL for Award notice was filled by CM1. The CL was signed by CM1, CM2 QAS, Head of CD but not signed by the Head of QAD.

According to the above mentioned, neither one check was performed adequately. Even though the segregation of duties was ensured, the procedure for cross-checking was not performed adequately. According to the submitted documentation, performed CLs for sampled contract, we consider *this finding closed*.

- ***Lack of staff, recruitment and retention policy***

ICF requirement: 1 (d) staff planning, recruitment, retention, training and appraisal

Level of priority: Intermediate

Body/-ies concerned by the finding: all IPA bodies

During the audit we determined, based on the internal acts on systematisation and organisation of job positions and WLA that in all bodies of managing and operating structure, dealing with OP – Annual Country Action Programme for Montenegro for the year 2014, the number of permanently employed executors is insufficient. We also noted difficulties in retaining staff who

during the work in bodies acquired appropriate knowledge and experience. Envisaged job position related to IPA jobs by Rulebook, result of WLA/2017 and number of the currently employed on the date of the audit) are given in the table below:

Auditee	Envisaged Job position related to IPA jobs by Rulebook	Result of WLA/2017	Currently employed
NF/NAOSO	8 - Including NAO	10	7 (LTEC)
NIPAC Office	11 - Including NIPAC	9	7 (6 – LTEC, 1-TEC)
CFCU	21 - Including Head of IA	37	19 (18-LTEC; 1-TEC)
DPW	30 - Including Director (Head of IA)	27	22 (21-LTEC;1-TEC)
MF	4 - Including SPO	4	3(LTEC) ¹
MSDT	8 - Including SPO	8	6 (5-LTEC;1-TEC)
MTMA	5 - Including SPO	7	3 (LTEC)
MEC	5 - Including SPO	5	5(3-LTEC; 2-TEC)

Our recommendation was to take necessary measures and accelerating activities with a view to recruiting lacking number of employees which would further influence better and more efficient management and use of IPA funds. In order to prevent outflow of the key employees and problems created by their leave from IPA bodies, it is necessary to develop factually established policy of staff retention. Such policy would improve systems of promotion, award, professional training as well as other aspects of work. Therefore, we recommend making of additional efforts in order to establish policy of staff retention which can respond to the expected scope of work and fluctuation of employees.

According to the responses from the auditees and available documentation the envisaged job positions related to IPA jobs by Rulebooks, result of WLAs and number of the currently employed is given in the table below:

Auditee	Envisaged job position related to IPA jobs by Rulebook	Result of WLA/2020	Currently employed January 2021	Currently employed October 2020
NF/NAO SO	15 - Including NAO	15	10 (8-LTEC; 2 TEC)	10 (7- LTEC;3 TEC)
NIPAC Office	15 - Including NIPAC	15	13 (11 – LTEC; 2-TEC)	14 (10 – LTEC; 4-TEC)
CFCU	39 - Including Head of IA	37	35 (26-LTEC;9-TEC)	33 (25-LTEC;8-TEC)
DPW	40 - Including Director (Head of IA)	40	28 (25 -LTEC; 3-TEC)	32 (26-LTEC;6-TEC)
MF	4 - Including SPO	5	1 (LTEC) MF u MFSW	1 (LTEC)
MSDT	9 - Including SPO	9	6 (6-LTEC)	6 (6-LTEC)
MTMA	6 - Including SPO	5	5 (4-LTEC; 1 TEC)	5 (4 – LTEC;1-TEC)
MEC	5 - Including SPO	5	5 (5-LTEC)	5 (5-LTEC)

In comparison, we noticed that the number of job positions envisaged in the Rulebooks of IPA Bodies increased or remained the same, as well as in WLAs for 2020.

Also, when we compare the situation in 2017 (when the finding was determined) and results of follow up, the number of employees in IPA bodies increased, except for the Ministry of Finance (PIU) where the situation is very risky since there is only one employee.

The progress is evident in most of the auditees, since the auditees beside other efforts, undertake measures in order to mitigate risk of lack of employees and engage additional staff. However, the significant number of employees is employed based on fixed-term contracts, which is acceptable to mitigate the risk of lack of employees for a short time, but not as a permanent solution.

Finding ***remained open*** with the intermediate level of priority, except for the Ministry of Finance where we increased the level of priority to High as well as for IA-PWA having in mind that the significant outflow of employees was identified.

The progress regarding employment of necessary employees in CFCU. Finding remains open with the minor level of priority.

- ***IT Policy - Backup of data***

ICF requirement:3 (b) Security control activities

Level of Priority: Intermediate

Body/-ies concerned by the finding: all IPA bodies

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

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

According to the auditee's responses and on the spot checks it is evident that employees of IPA bodies are aware of existence of risk of losing data. We determined that most of them use share folders in order to maintain all relevant data and documents. Also, share folders are periodically backed up on external hard disks. Bearing in mind previously mentioned, we consider that certain progress has been made related to this issue. Also, Action plan ISO 27002 regarding IT security policy was adopted on the Government session held on March 19th 2020 and in the upcoming period various activities will be conducted in order to implement this Action plan. Bearing in mind that the Steering Committee was established by the relevant Decision of the Ministry of Public Administration on November 17th 2020 the progress is evident.

However, activities envisaged in the IT Action plan ISO 27002 are not implemented and AA will continue to monitor full implementation of the recommendation.

In order to provide the above mentioned, significant efforts are evident. Besides that, ***this finding remains open.***

- ***Contingency plan developed***

ICF requirement: 3 (a) (viii) *Procedures for continuity of operations ensuring that significant risks to continuity (e.g. concerning loss of data, absence of individuals etc.) are identified and contingency plans put in place*

Level of Priority: *Intermediate*

Body/-ies concerned by the finding: *all IPA bodies*

According to the Article 34 of the Government Decree for Information security (OG MNE No. 58/10; 55/15), business continuity plan should be developed and approved.

All bodies of Operating Structure and Management structure of IPA II do not have contingency plan developed. There is a risk for continuity of operations concerning loss of data, absence of individuals, and some other unpredictable situations.

Our recommendation was to develop the contingency plan with clear responsibilities and procedures.

The Government of Montenegro adopted the proposal of Action Plan ISO 27002 regarding IT security policy and Contingency plan is a part of it. In the upcoming period activities will be conducted in order to implement this Action plan. ***This finding remains open.***

- ***Internal audit capacities***

ICF requirement: 5 (a) *On-going and specific monitoring*

Level of priority: *Intermediate*

Body/-ies concerned by the finding: *MSDT/MTMA/MEC/MF/CFCU/NF*

During audit we identified that there is a lack of capacities within IADs in all IPA bodies and this fact may have an impact on the quantity and/or quality of audits that are envisaged in annual audit plans. There is a risk that some of the systems, processes or procedures with high impact on overall system will not be subject of the audit and that managers would not have additional assurance about functioning of their systems or independent review on effectiveness and efficiency of the system.

Our recommendation was related to increasing capacities of internal audit in order to ensure timely and effective execution of internal audit function described in their procedures and plans and with a view to increasing coverage of audit areas which has a high impact on implementation of IPA funds.

Decree on establishment of the Internal Audit in the Public Sector was adopted by the Government on the session held on November 21st 2019. By the provisions of this Decree

Ministry of Finance will be in charge to determine separate Internal Audit Unit in charge of audit of EU funds, which shall cover all line ministries involved in indirect management and their work shall be coordinated by NAO.

By the provisions of this Decree Ministry of Finance will be in charge of determining separate Internal Audit Unit in charge of audit of EU funds, which shall cover all line ministries involved in indirect management and their work shall be coordinated by NAO.

Based on auditees' response and obtained documentation, we consider that IPA structure is aware of importance of having effective internal audit function. Internal Audit Unit responsible for audit of EU funds has been established and until now two internal auditors have been nominated. Nevertheless, no audits have been conducted by this Unit. Having in mind that the recommendation is partially implemented we will monitor the full implementation of recommendation. The *finding remains open*.

- **Reports on implementation**

ICF requirement: 5 (a) On-going and specific monitoring

Level of priority: Intermediate

Body/-ies concerned by the finding: NIPAC, Head of NIPAC Office, SPOs

During the audit performed and based on the insight into submitted documentation, we determined that procedures in respect to preparation of Annual Implementation Report for 2016 have not been fully implemented and respected. Namely:

Annual Implementation Report for 2016 was prepared and submitted to the European Commission in prescribed deadline (by 15th February 2017). However, Annual Implementation Report for 2016 has not been submitted for the reviewing and examination to the Sectoral Monitoring Committee and IPA Monitoring Committee by NIPAC Office;

Annual Implementation Reports for 2016 have not been prepared based on all information, which should be submitted by SPOs/PIUs (Quarterly and Semi-Annual Monitoring Reports have not been prepared).

During 2016 Semi-Annual Implementation Reports were not prepared by NIPAC Office;

In addition to the above, it is evident that procedures in respect to quality information checks and coordination of the reporting requirements have not been implemented. Namely, Quarterly and Semi-Annual monitoring Reports Checklists have not been prepared and signed and Time-Schedule, Guidelines and Instructions have not been issued and submitted to the SPOs/PIUs by NIPAC Office.

We recommended respecting procedures in relation to the preparation and submission of Annual Implementation reports, as well as improving communication between NIPAC Office and PIUs.

According to the responses from the auditees and based on the review of the submitted documentation we have determined that the procedures related to the preparation of the Annual Implementation Report are still not fully respected, but progress is evident. NIPAC Office, with technical assistance support, during previous period organized several trainings on monitoring of IPA II programmes in order to increase the capacities for better result-based monitoring.

The Sectoral Monitoring Committee Meeting for IPA II was organized during October 2020 due to the sector approach of discussion that was proposed by DEU. It was agreed that Semi-annual

monitoring report will be adopted in the written procedure between NIPAC Office and EUD. Considering aforementioned, we found that recommendation is partially implemented, i.e. NIPAC office has undertaken certain activities related to improving the coordination and communication within the OS as well as to increasing the capacities for adequate monitoring. However, **this finding remains open** for NIPAC, Head of NIPAC Office and MF the until the full implementation.

- **Accounting procedures ensuring complete, accurate and transparent accounting following internationally accepted accounting principles**

ICF requirement: 3 (a)

Level of priority: Intermediate

Body/-ies concerned by the finding: NFD, CFCU and PWA

By the insight into bookkeeping record of the Managing and Operating structure (IAs) and relating to Country Action Programme for Montenegro for 2014 (Goal 1 - CRIS 2014/032-022 and Goal 2 - CRIS 2014/032-802), we have established the following:

Financing agreement CAP 2014 covers two goals and thus the reporting should be done per goal since different goals are financed from different financing sources (i.e. come from the different budgetary lines). Therefore, accurate financial data at the goal level should be ensured. Bookkeeping record of the Managing and Operating structure (IAs) does not give data per goal but collectively at the Program level. The reason for such record is one account at the program level. In accordance with the Article 4 of the Financing Agreement, National Fund and Operating Structure of IPA II of the beneficiary, i.e. the Contracting Authority for the program, opens at least one banking account denominated in euros.

The necessity for more banking accounts depends on goals covered by the specific Financing Agreement. In case of FA which covers more than one goal, state authorities should open the appropriate number of banking accounts.

In accordance with the principles of the sound financing management, the reporting within the program, including financial data, should be accurate and reliable and it is therefore important that national authorities have separate banking accounts per goal within CAP 2014.

It is also necessary to note that the first pre-financing for two goals of the Country Action Program for Montenegro for 2014 (2014/032-022 and 2014/032-803) is paid on one account.

As the bookkeeping record is the basis for annual financial reporting and financial data should be accurate and reliable, for Financing Agreement CAP 2014 with two financing sources (Goal 1 and 2), national authorities should open 2 separate banking accounts. It will allow state authorities to identify costs per goal and therefore, based on the accurate financial data to separate reporting between goals. It is necessary to note that NFD kept auxiliary record of payments per goals.

We recommended opening of another banking account for the goal 2 CAP 2014 as soon as possible and the appropriate funds for the Goal 2 should be transferred to that account. It is, thus, necessary to arrange the bookkeeping record so that the financial reporting could be per goals.

According to the responses from the auditees and available documentation the procedure for opening another bank account, for second budget line within the CAP 2014 programme has been performed.

However, transfer of funds to the opened bank account is not performed yet.

Having in mind that the recommendation is partially implemented we will monitor the further implementation of recommendation in the following period. The *finding remains open*.

- **Lack of segregation of duties**

ICF requirements:1(b) 3(a)

Level of priority: Intermediate

Body/-ies concerned by the finding: MF(PIU)

According to the requirements of Annex B – Internal Control Framework from Framework Agreement:

1b “Supervision by management of tasks delegated to subordinates

Ensuring that oversight procedures and structures are developed, including reporting from subordinate actors.

Ensuring that accountability is supported by proactive and continued supervision”

3a (iii) “Procedures, including checklists, for each step of procurement and grant calls (e.g. technical specifications, evaluation committees, reporting of exceptions etc.) ensuring each member of staff is clear as to their responsibilities in these areas”

3a (xiii) “Segregation of duties ensuring that different tasks in the life of the same operation are allocated to different staff to ensure automatic cross-checking controls”

According to the MoP procedure V.2.0, chapter Human resources and Internal organization functional segregation of duties has to be ensured so that the PIU could perform assigned functions. Also, according to the MoP version V.1.0, chapter Human resources and Internal organization:

“Supervision is incorporated in operational procedures and ensured by applying »four eyes« principle and required double signature or signature by the SPO, and regular audits carried out by the responsible Internal Audit Unit.”

“Although having significant decision making rights, the SPO cannot undertake most actions on his/her own, but rather through the system of co-signature and implementation of checklists which prove the use of „4 eyes principle“.

Additionally, according to the same chapter, as well as Rulebook of Internal organization and systematization, the Ministry of Finance – Department for European integration acting as PIU, job positions Head/SPO, 1 programming manager and 2 implementation managers are foreseen.

During the audit performed and based on the insight into submitted documentation of MF/PIU we determined the following:

Only one person is employed, Head of Department/SPO;

Documents such as Annual Work Plan for 2019 and Annual Training Map for 2019 are prepared only by the SPO. However, those documents are not verified or approved since the SPO is the only employee in the PIU.

Furthermore, CLs (Annex 2 of Contract Procedures) for service contracts Improvement of Budgeting System and PIFC and Improvement of Budget Department IT System are prepared and signed only by the SPO.

According to the above mentioned, the segregation of duties was not ensured, nor was it possible to apply “four eyes principle” or cross-checking controls.

In order to ensure segregation of duties and four eyes principle we recommended filling the vacancies foreseen in the Rulebook of internal organization and systematization.

In accordance with the reply from the MF/PIU and the fact that there is still one employee in the MF/PIU, the *finding remains open*.

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

Not applicable.

8. OTHER INFORMATION

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

Not applicable.

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

Not applicable.

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

Not applicable.

9. OVERALL LEVEL OF ASSURANCE

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

The Audit Authority performed system audit in 2020. The Audit Authority did not perform audit of operations in the reference period since no expenditure were declared to the European Commission in the financial year 2020.

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

However the assurance on the proper functioning of the management and control system is based on the results of the system audits (system assessment – please see section 4 above).

As a results of the system audit, the management, control and supervision systems established for IPA II CAPs 2014, 2016, 2017, 2018 is assessed as „works, but some improvement(s) are needed“. Therefore, it is appropriate to issue an unqualified opinion on the proper functioning of the MCSS.

The assurance on the accounts is based on the results of the audit of accounts as described in section 6.3 of this AAAR. Based on the audit work performed we cannot confirm completeness, accuracy and veracity of the amounts declared in the accounts submitted to the European Commission for the accounting year 2020 for: CAP (2014/032-803) and CAP 2016 (2016/037-896) because the process of preparing is not done properly.

Annual Financial Report for 2020 (CAP 2014) contains data for some items which do not match with data and information verified in Implementing Agencies' evidencies and accounting records. Namely, Total costs recognised – „EU contribution“ is incorrectly (more) reported for the 12,630.02€ which represents 0,15% of reported amount (8,240,197.17€), „National contribution“ is incorrectly (more) reported for the 1,398.01€ which represents 0,06% of reported amount (2.074.314,92€), which is below the materiality threshold of 2%.

Annual Financial Report for 2020 (CAP 2016) does not contain data for item "Other sources" which do not match with data and information verified in Implementing Agencies' evidencies and accounting records. Namely, the amount of „Other sources“ was not presented in the field Total Amount Contracted in the amount of 487.205,47€.

The error in reporting is the omission of the NF to include in the AFR „Other sources“ that are properly recorded in the accounting system of Ias therefore it is appropriate to issue an unqualified opinion.

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.

The audit entity announced an improvement in its responses to the identified findings and recommendations in the System Audit Reports. The further implementation of the recommendation will be monitored.

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

Not applicable.

Annual Audit Activity Report for CAP 2014;2016;2017;2018

				A	B		C	D	E		F	G	H=F-G	GI	JH
Fund	Reference (CCI)		Programme	Expenditure declared to the Commission in reference to the year	Expenditure in reference to the financial year audited for the random sample		Total number of units in the population	Number of sampling units for the random sample	Amount and percentage (error rate) of irregular expenditure in random sample		Total projected error rate	Corrections implemented as a result of the total error rate	Residual total error rate	Other expenditure audited	Amount of irregular expenditure in other expenditure sample
					Amount	%			Amount	%	%				
	C (2014) 9387		Annual Country Action Programme for Montenegro for the year 2014	/	/	/	/	/	/	/	/	/	/	/	/
	C (2016)8226		Annual Country Action Programme for Montenegro for the year 2016	/	/	/	/	/	/	/	/	/	/	/	/
	C (2017) (2017/040-216 and 2017/039-816)		Annual Country Action Programme for Montenegro for the year 2017	/	/	/	/	/	/	/	/	/	/	/	/
	C (IPA/2018/040-218 and IPA/2018-040-220)		Annual Country Action Programme for Montenegro for the year 2018												