



**MONTENEGRO**  
**AUDIT AUTHORITY**

No: 3011-4-06-145

Date: March, 15<sup>th</sup> 2021

**ANNUAL AUDIT ACTIVITY REPORT**  
**FOR**  
**2015-2017 SECTORAL OPERATIONAL PROGRAMME FOR**  
**MONTENEGRO ON EMPLOYMENT, EDUCATION AND**  
**SOCIAL POLICIES (SOPEES)**  
**(CRIS No 2015/037-895)**

**FOR THE PERIOD**  
**1<sup>st</sup> JANUARY 2020 – 31<sup>st</sup> DECEMBER 2020**

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## **LIST OF ABBREVIATIONS**

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

## 1. INTRODUCTION

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

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

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

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

The Audit Authority is responsible for verifying:

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

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

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

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

Pursuant to Article 3(f) of the Framework Agreement between Montenegro and the European Commission on the arrangements for implementation of Union financial assistance to Montenegro under the Instrument for Pre-accession Assistance (IPA II), reference period for this Annual Audit Activity Report is financial year and covers the period from on 1<sup>st</sup> January to 31<sup>st</sup> December 2020.

When it comes to system audits, for the purpose of detailed defining scope of the audit we performed a risk assessment to determine the bodies and ICFR area which will be covered by system audit. For the preparation of Audit Strategy, risks were identified and taken into account at the programme/structure and authorities' level. Additionally, in order to define the key requirements within each body and ICFR area, we performed risk assessment at the level of



each assessment criterion/requirement during system audit engagement planning. For more details about scope of system audits carried out, see sections 4.2 and 4.4.

Bearing in mind that during 2019 and 2020 no expenditure was declared to EC, Audit Authority has not been in a position to perform audit of operations/transactions regarding SOPEES.

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

The summarized data regarding the total amounts contracted, decommitted, disbursed, recognized and open pre-financing as well as recoveries and bank balance, which were submitted in the AFR for 2020, is presented in the table below:

<i>Sectoral Operational Programme for Employment, Education and Social policies 2015-2017</i>		
<i>Financing Agreement CRIS No 2015/037-895</i>		
Total Amount Contracted	EU contribution	10.819.757,78
	National contribution	1.909.368,99
	Other sources	852.298,61
Total Amount Decommitted on closure	EU contribution	0,00
	National contribution	0,00
	Other sources	0,00
Total Amount Disbursed	EU contribution	5.325.023,79
	National contribution	939.710,07
	Other sources	0,00
Total Costs Recognized	EU contribution	1.302.498,09
	National contribution	229.852,59
	Other sources	0,00
Total Open Pre-financing	EU contribution	4.230.376,46
	National contribution	673.560,51
	Other sources	0,00
Recovery context	Errors	0,00
	Irregularities	0,00
	Fraud	0,00
	No context	0,00
Bank Balances (EU contribution)	Total	2.169.117,89

**Table 1**

For more details about audit of accounts see sections 6.2 and 6.3.

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

The report covers Multi-annual action programme for Montenegro on Employment, Education and Social policies 2015-2017 (2015/037-895).

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

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

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

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

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

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

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

To prepare the Annual Audit Activity Report, the Audit Authority processes and summarises and assesses the findings and recommendations included in the reports on performed audits, and carries out a follow-up to assess the time proportional implementation of action plans prepared on the basis of audit recommendations.

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

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

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

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

The Audit Authority submits Annual Audit Activity report and Annual Audit Opinion to the European Commission and the Government of Montenegro with a copy to the NIPAC and the NAO by 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 2020 the NAO/Deputy NAO informed the European Commission and Audit Authority about substantial and planned changes in the system.

#### ➤ Organizational

##### *Decree on the organisation and manner of work of the state administration*

With the formation of the new Government of Montenegro, the Decree on the organisation and manner of work of the state administration has been 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. This change had significantly reflected on organization of PIUs within Operating Structure for 2015-2017 SOPEES.

Change occurred on December 7th 2020, and EC has been informed on the change occurred through the NAO Progress report submitted on 15th January 2021.

#### ➤ Personal changes

##### *National IPA Coordinator*

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).

On the session held on 7th December 2020, the Government of Montenegro endorsed termination of the mandate for Mr Aleksandar Drljević and designated Ms Zorka Kordić to perform the role of the new State Chief Negotiator and National IPA Coordinator.

NAO informed European Commission and Audit Authority on this personal change on 22nd January 2021. (Letter No: 01-817/1).

##### *National Authorising Officer*

At the session held on 15th October 2020, the Government of Montenegro terminated the mandate of the State Secretary and National Authorising Officer - Mr Nemanja Katnić on his personal request. According to procedures in place, functions and responsibilities of the NAO were performed by Ms Ivana Maksimović, Director general of the management structure and Deputy NAO.

Deputy NAO informed European Commission and Audit Authority on this personal change on 3rd November 2020.

At the session held on 18th February 2021, the Government of Montenegro appointed Mr Janko Odović, the State Secretary in the Ministry of Finance and Social Welfare, as the National Authorising Officer.

Deputy NAO informed European Commission and Audit Authority on this personal change on 5th March 2021. (Letter No: 01-3284/1).

### ***Lead SPO***

On October 1st 2020 termination of the mandate had been endorsed by the Government for Ms Ljiljana Simović as the General Director of the Directorate for European Integration, Programming and Implementation of EU funds and International Cooperation within Ministry of Labour and Social Welfare, on her personal request. She was appointed as Lead SPO under Sectoral Operational Programme for Education, Employment and Social Policies (SOPEES 2015-2017).

Deputy NAO informed European Commission and Audit Authority on this personal change on 3th November 2020.

### ***Head of Division within PIU in the Ministry of Labour and Social Welfare***

Ms Biljana Krstajić, former Head of Division within PIU, left this position in February 2020 and Ms Biljana Kovačević started her engagement as Head of Division within PIU MLSW on 5th March 2020. The information was submitted to the NAO.

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

The changes that occurred in MCSS in 2020 have been communicated to the European Commission and the Audit Authority.

Personnal changes have been assessed by Audit Authority and we can confirm their compliance with Article 7 of Commission Implementing Regulation (EU) No 447/2014. These changes do not have an impact on the audit work.

Above listed changes did 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

According to the Article 12 of Commission Implementing Regulation No 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 2015-2017 Sectoral operational programme for Montenegro on Employment, Education and Social policies (SOPEES) was prepared and submitted to the European Commission with a copy to the NAO in November 2019. The Audit Strategy was prepared on a tri-annual basis for period 2020-2022 following the model in Annex G of Montenegrin Framework Agreement and approved by Auditor General.

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

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

Not applicable.

### 4. SYSTEM AUDITS

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

The audit body that has carried out system audits 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" No 14/12, 54/16, 37/17 and 70/17).

In accordance with the Law on Audit of EU Funds and the Audit Strategy 2020-2022 for the 2015-2017 Sectoral operational programme for Montenegro on Employment, Education and Social policies (SOPEES), the AA of Montenegro conducted an audit of the management, control and supervision system (hereinafter: MCSS) established in the management and operating structure.

## 4.2. Summary table of the audits carried out

<b>Audit period</b>	<b>1. Programme (CCI and title)</b>	<b>2. Audit Body</b>	<b>3. Audited Body (-ies)</b>	<b>4. Date of the audit</b>	<b>5. Scope of the audit</b>	<b>6. Principal Findings and conclusions</b>	<b>7. Problems of systemic character and measures taken</b>	<b>8. Estimated financial impact (if applicable)</b>	<b>9. State of follow-up (closed /or not)</b>
December 2019 - October 2020	C(2015) 9051 09/12/2015 CRIS decision No. 2015/037-895 Multi-annual action programme for Montenegro on Employment, Education and Social policies	Audit Authority of Montenegro	NAO and NASO	June – November 2020	ICFR 2	a) Insufficient understanding of the risk management process.	/	/	Partially implemented
December 2019 - October 2020	C(2015) 9051 09/12/2015 CRIS decision No. 2015/037-895 Multi-annual action programme for Montenegro on Employment, Education and Social policies	Audit Authority of Montenegro	National Fund Division	June – November 2020	ICFR 2 ICFR 3	a) Insufficient understanding of the risk management process.	/	/	Partially implemented
December 2019 - October 2020	C(2015) 9051 09/12/2015 CRIS decision No. 2015/037-895 Multi-annual action programme for	Audit Authority of Montenegro	CFCU / IA	June – November 2020	ICFR 2 ICFR 3	a) Insufficient understanding of the risk management process; b) Non-compliance with prescribed rules and procedures related to contracting and payment procedures; c) Exceeding the period for	/	/	Partially implemented  Open

## ANNUAL AUDIT ACTIVITY REPORT

	Montenegro on Employment, Education and Social policies				ICFR 5	informing the applicants of the outcome of the evaluation process; d) Non-respecting the procedure related to cancellation of procurement; e) Omissions within the performed payment checks.			Open  Open  Closed
December 2019 - October 2020	C(2015) 9051 09/12/2015 CRIS decision No. 2015/037-895 Multi-annual action programme for Montenegro on Employment, Education and Social policies	Audit Authority of Montenegro	PAW / IA	June – November 2020	ICFR 2  ICFR 3  ICFR 5	a) Insufficient understanding of the risk management process.	/	/	Open
December 2019 - October 2020	C(2015) 9051 09/12/2015 CRIS decision No. 2015/037-895 Multi-annual action programme for Montenegro on Employment, Education and Social policies	Audit Authority of Montenegro	MLSW / PIU	June – November 2020	ICFR 2  ICFR 3  ICFR 5	a) Insufficient understanding of the risk management process.	/	/	Partially implemented
December 2019 - October 2020	C(2015) 9051 09/12/2015 CRIS decision No. 2015/037-895 Multi-annual action programme for Montenegro on	Audit Authority of Montenegro	MoE / PIU	June – November 2020	ICFR 2  ICFR 3  ICFR 5	a) Insufficient understanding of the risk management process.	/	/	Partially implemented



## ANNUAL AUDIT ACTIVITY REPORT

	Employment, Education and Social policies								
December 2019 - October 2020	C(2015) 9051 09/12/2015 CRIS decision No. 2015/037-895 Multi-annual action programme for Montenegro on Employment, Education and Social policies	Audit Authority of Montenegro	MHMR / PIU	June – November 2020	ICFR 2  ICFR 3  ICFR 5	a) Insufficient understanding of the risk management process;  b) Exceeding the period for informing the applicants of the outcome of the evaluation process;  c) Lack of monitoring and reporting at action level.	/	/	Open  Open  Partially implemented

**Table 2**

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

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

For the purpose of detailed defining of the scope of the audit, during the preparation of Audit Strategy for period 2020-2022 the Audit Authority performed a detailed risk assessment to determine the bodies and ICFRs which will be covered by system audit. Additionally, in order to define the sub-criteria within each ICFR which will be encompassed by the appropriate audit activities in particular body, we performed risk assessment at the level of each requirement 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/structure and authorities' level while during system audit engagement planning phase risk assessment was performed at the level of each key requirement. Specific risk factors have been assessed for each body and ICFR. 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 had been ranked according to the total score.

#### **4.4. Details of the audits carried out**

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

On the basis results of performed risk assessment during the preparation of the Audit Strategy 2020 – 2022, understanding of audit environment and performed risk assessment during the preparation phase of system audit, we decided which bodies, audit areas (ICFR, sub-criteria, and processes) as well as specific audit/compliance objective per audit area would be covered. As a results of performing previously mentioned activities, we decided to audit the following IPA bodies: NAO/NAOSO, NFD, CFCU, PWA, MLSW, MoE and MHMR.

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

conclusion on the MCSS of the programme.

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

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

In the following table (Table 3) are presented results of evaluation for all audited ICFR/assessment criteria in each body.

<b>ICFR \ AUDITEE</b>	<b>NAO / NASO</b>	<b>NF</b>	<b>CFCU</b>	<b>PWA</b>	<b>MLSW</b>	<b>MoE</b>	<b>MHMR</b>	<b>TOTAL per ICFR</b>
<b>2(a)</b> Objective setting	1	1	1	1	1	1	2	2
<b>2(b)</b> Risk identification, assessment and response	2	2	2	2	2	2	2	2
<b>2(c)</b> Fraud risk	1	1	1	1	1	1	1	1
<b>2(d)</b> Identification and assessment of changes affecting the system of internal controls	1	1	1	1	1	1	1	1
<b>ICFR 2</b>	2	2	2	2	2	2	2	2
<b>3(a)</b> Selection and development of control activities	/	1	2	2	1	2	2	2
<b>ICFR 3</b>	/	1	2	2	1	2	2	2
<b>5(a)</b> On-going and specific monitoring	/	/	1	2	1	1	2	2
<b>5(b)</b> Assessment, recording and communication of internal control deficiencies	/	/	1	1	1	1	1	1
<b>ICFR 5</b>	/	/	1	2	1	1	2	2
<b>TOTAL per IPA body:</b>	2	2	2	2	2	2	2	2

*Table 3*

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

Principal findings identified in the particular ICFR are as follows:

## **ICFR 2 – RISK MANAGEMENT**

### **➤ *Finding No 1: Insufficient understanding of the risk management process***

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

According to MoP, Chapter Risk Management:

“Risk management goal is to bring the related risks to an acceptable level by carrying out measures that would mitigate the likelihood of risk occurrence, impact of risk realization or both at the same time.

Analysis of risks with defined level of risk acceptance may provide reasonable assurance that the objectives will be achieved. However, even a well-designed and operated Risk management cannot guarantee that all objectives will be fully achieved.

In practice, Risk management activity at any level of the IPA structure and authorities is implemented by:

- Preventive actions;
- Administrative verifications;
- On-the-spot verifications;
- Any other action/ initiative that may mitigate identified risks.

The Risk management includes different activities like identifying, assessing, prioritizing risks, planning, implementation and review of mitigating or corrective actions as well as in advance planning and control.”

Based on documentation obtained, desk checks performed and interviews conducted, we concluded that risk management activities regarding IPA II 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES) and in general understanding of risk management is not at satisfactory level.

We identified that all formal requirements in Risk Management have been met, that everyone in the IPA structure recognizes the risks, fills in risk alert forms, fulfils risk register and makes action plans.

Despite all the formally met conditions in the process of identifying risks and planning actions that will reduce them, we consider that this is an area that needs more attention in order to improve this process and thus contribute to achieving the set goals. Namely, it is a common situation that risk alert forms are filled in just before the risk panel and on the same date the risk registers and action plans are filled out. Because of this approach, it happens that: dates are entered incorrectly, risks are vaguely defined, risk mitigation actions are planned too generally and without clear timelines, the registers are filled in the wrong column, the same risk is recognized several times, risks are deleted from the risk register and so on. During the conducted interviews with risk managers, we found that the auditees had recognized the risks and had reacted to them in a timely manner but they had not had a record of what actions they had undertaken.

Below we have singled out some examples of deficiencies and misunderstandings of risk management process in different bodies:

#### **➤ MHMR-PIU**

Risk alert forms were completed on 25/06/2020 while in the risk register states that the risks were identified on 03/12/2019. Also, the risk register did not include the risk of delays in

implementation of the Action but this risk was identified within the risk action plan.

➤ MoE-PIU

Risk Action Plan, under risk no 3 the following is defined:

- Risk trigger event, situation or factor - Need for continuous capacity building of IPA officers for IPA project implementation
- Mitigation measures - Continuous training of personnel
- Responsibility - Head of PIU
- Timeline for implementation of measures – Continuous
- Action already taken (follow up information) - PIU officers attended IPA -targeted training events.

➤ CFCU-IA

The risk No. 82 in the Risk register is defined as follows:

- Risk trigger event, situation or factor - The following activities defined in the ToR related to Component 1 (activity 4 and 5) and Component 2 (activity 4) have not been implemented yet. Bearing in mind that the end of the contract is September 2020, there is a certain risk that the indicators defined in the ToR will not be fulfilled.
- Impact area and description of potential consequences - Improvement and strengthening of institutional set-up and legal framework in the area of state aid and public procurement
- Recommended preventive/contingency actions - The contract manager responsible for this project informed his superiors on any obstacle that could affect the implementation of the project. It is planned that the contractor submits to the CFCU the request for an addendum (no cost extension).

➤ MLSW-PIU

All risk alert forms and all risks in Risk Register are from 25/06/2020.

➤ PWA-IA

The risk of Lack of staff (Insufficient number of employees, Staff have been overloaded) was opened for nine times/positions in the Risk Register. There are also active risks in the RR with a probability and impact equal to zero.

In our opinion, this approach cannot ensure measures that mitigate the likelihood of risk occurrence, impact of risk realization or both at the same time.

These measures do not ensure the achievement of the goal since the specific action is planned only after the emergence of a risky situation, and this can often be untimely. Our opinion is that all this occurs due to insufficient understanding of the risk management process.

**Recommendation:**

We recommend to all IPA bodies to organize additional trainings for all persons involved in the risk management process and to provide detailed instructions on how and when to complete each annex related to risk management. These trainings should be designed to contribute to a better understanding of risk management, a clearer defining of risks and mitigating actions, etc.

**ICFR 3 – CONTROL ACTIVITIES****➤ Finding No 2: Non-compliance with prescribed rules and procedures related to contracting and payment procedures****Body/-ies concerned by the finding: CFCU/IA**

According to 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), the following provisions shall be respected: Article 12 Conditions for entrusting the IPA II beneficiary with budget implementation tasks “... ”

(2) When managing IPA II funds, the IPA II beneficiary shall respect the principles of sound financial management, transparency and non-discrimination, and shall ensure the visibility of IPA II assistance. The IPA II beneficiary shall guarantee a level of protection of the financial interests of the European Union equivalent to that required under the Financial Regulation when managing IPA II funds, with due consideration for:

- a) the nature of the tasks entrusted to them and amounts involved;
- b) the financial risks involved;
- c) the level of assurance stemming from their systems, rules and procedures together with the measures taken by the Commission to supervise and support the implementation of the tasks entrusted to them.

(3) In order to protect the financial interests of the Union, the IPA II beneficiary shall:

- a) set up and ensure the functioning of an effective and efficient internal control system;
- ...
- d) apply appropriate rules and procedures for providing financing from IPA II assistance through grants, procurement and financial instruments.”

According to the PRAG (Version 2018.0), section 2.10.2. Contract preparation and signature, among the other provisions, the following is stipulated:

“When preparing the contract for signature, the contracting authority must proceed as follow:

- ...
- Sign and date all originals of the contract and initial all pages of the special conditions and most relevant annexes including, for grants, the budget. In case of grants, the contracts **must be signed within 3 months** from the date of notification of the evaluation results, ...
- Send the signed originals of the contract to the successful tenderer/applicant, who must countersign them within 30 days of receipt.
- The tenderer or grant applicant keeps one original and returns the other(s) to the contracting authority with any financial guarantee(s) required in the contract. If the successful tenderer/applicant fails to do this within the specified deadline or indicates at any stage that it is not willing or able to sign the contract, the tenderer/applicant cannot be awarded the contract.
- ...”

Reviewing and analysing documentation related to Grant scheme “*Training and education activities for deficit occupations and for boosting employability of RE population*” (EuropeAid/163191/ID/ACT/ME), we have determined deficiencies within the contracting and payment procedures for certain grant contracts. The restricted Call for proposals was published on 01/03/2019. We identified that two different templates of grant contract (special conditions) had been published at the same time. Namely, Standard Grant Contract with all relevant annexes was published as zipped file Annex G and the second template of Grant contract, which was pre-adapted for this call for proposals, was published as a separate document/annex. The main

difference between these two annexes (templates) is the requirement regarding pre-financing guarantee. In the standard template, the provision of pre-financing guarantee is foreseen as optional (if deemed necessary and appropriate by the Contracting Authority). In the template pre-adapted for this particular call for proposals, provision of the pre-financing guarantee is mandatory (Article 4.2: *“The first instalment of pre-financing shall be accompanied by a financial guarantee amounting to EUR <amount, usually the amount of the first pre-financing payment> and complying with the requirements of Article 15.8 of Annex II.”*).

We determined that evaluation phase had been finished by mid-August 2019 when Evaluation Report Step 3 was approved by EUD (15/08/2019). Notifications to nine successful applicants were sent on 13/09/2019 out of which four selected applicants were private entities. Request for global endorsement was approved by EUD on 14/11/2019 and Contracting Authority sent contracts for signature on 15/11/2019. However, analysing all of 9 signed grant contracts (special conditions), we determined that 8 contracts had been signed by Head of CA on 15/11/2019 while one of them had been signed by CA on 30/01/2020. Considering that notifications on the outcome of the evaluation were sent on 13/09/2019 and the rule that the contracts **must be signed within 3 months** from the date of notification of the evaluation results, it is evident that in case of grant contract CFCU/MNE/094 the previously mentioned rule has been violated. We have been informed by CA that delay in signing of this grant contract was because private entity didn't want to sign contract due to inability to provide pre-financing guarantee. Lastly, this grant contract was signed in the same way as the other three with private entities within this grant scheme.

As aforementioned, according to the rules and documentation published for this call for proposals, four out of nine successful applicants (private entities) were obliged to provide pre-financing guarantee because they are profit making entities. These four grant contracts were signed in line with template of Grant contract which was pre-adapted for this call for proposals (the provision of pre-financing guarantee was a must). However, after signing the contracts all of four awarded applicants/private entities informed CA that they were neither able to provide the pre-financing guarantee due to high banking costs, nor to start with realisation of project activities from its own budget, due to insufficiency of available funds. Therefore, we identified non-compliance with previously noted provisions of PRAG section 2.10.2 because awarded grant applicants signed the contracts and returned the originals to the Contracting Authority without financial guarantee required in the contract.

In order to resolve this situation and to ensure the implementation of these grant contracts, CA decided to proceed with addenda to all four contracts and to remove the requirement for the pre-financing guarantee. The addenda to four grant contracts (CFCU/MNE/094, CFCU/MNE/097, CFCU/MNE/099 and CFCU/MNE/100) was sent on 05/02/2020 to EUD on ex-ante control. Addendums were signed by the end of February and at the beginning of March 2020. Afterwards, CA executed advance payments for these grant contracts (without requiring pre-financing guarantees). According to the Annex II (General Conditions) to grant contracts, article 15.4. *“The initial pre-financing payment shall be made within 30 days of receipt of the payment request by the contracting authority.”* In addition to the fact that payments were made with a significant delay in relation to the dates of signing grant contracts, in case of one contract advance payment was also executed with delay in relation to the date of signing the addendum to the contract. CA explained that this payment has been postponed due to Government measures caused by COVID-19. Considering the date of signature of addendum and the starting date when Government measures took place, we found this explanation irrelevant.



The summarized data with dates is presented in the following table:

Number of grant contract	Notification of evaluation results	CA signature date of contract	Contractor signature date of contract	Addendum signature date	Date of pre-financing payment
CFCU/MNE/ 094	<b>13/09/2019</b>	<b>30/01/2020</b>	03/02/2020	27/02/2020	12/03/2020
CFCU/MNE/ 097	13/09/2019	15/11/2019	25/11/2019	28/02/2020	12/03/2020
CFCU/MNE/ 099	13/09/2019	15/11/2019	21/11/2019	<b>03/03/2020</b>	<b>13/04/2020</b>
CFCU/MNE/ 100	13/09/2019	15/11/2019	21/11/2019	12/03/2020	02/04/2020

**Table 4**

Additionally, we determined that addendums of contracts did not have any change regarding the implementation period of actions. Bearing in mind the explanations and arguments for waiving the pre-financing guarantees, i.e. that awarded GBs are neither able to provide the pre-financing guarantee due to high banking costs nor to start with realisation of project activities from its own budget, due to insufficiency of available fund, the question is whether they really waited for the payment of funds to start activities. Taking into account that advance payments were made 3 months (or more) later than predicted start date of implementation of the actions, there was a high risk that planned activities would not be fully implemented.

#### Conclusion:

Awarded grant beneficiaries failed to comply with provisions of signed contracts, i.e. did not provide pre-financing guarantees, and Contracting Authority undertook the risk of potential failure to respect the principles of sound financial management, transparency and equal treatment. In this way Union and national financial interests were compromised and were not protected in line with provisions of FwA and Financial Regulation bearing in mind that CFCU/IA cannot ensure that pre-financing could be repaid in case of termination of contracts. Having this in mind, we consider that in this case CFCU/IA did not fully adhere to the principle of sound financial management. Principle of transparency was not fully respected in case of Grant contract CFCU/MNE/094. The principle of equal treatment was compromised by the fact that in the published pre-adapted template of grant contract the provision of pre-financing guarantee was a must but later, after the contracts signature, CA waived from requesting financial guarantee. In such a way preferential treatment was given to these four beneficiaries over others who maybe did not apply at this call for proposals because of requirement for pre-financing guarantee.

#### **Recommendation:**

We recommend to CFCU/IA to:

- Strictly respect all principles and rules for implementation of Union financial assistance under IPA II in order to protect Union and national interests in line with provisions of FwA and Financial Regulation. Failure to fully respect relevant rules and principles can jeopardize financial interests and may lead to risk of incurring additional unnecessary costs.
- Avoiding publishing different variants of one document/annex under the same call for proposals/tender and clearly defining all relevant requirements needed to be fulfilled. Once requirements are established and published, they should be fully respected by the end.
- Improving controls in order to ensure that provisions of contracts signed are fully respected.



➤ ***Finding No 3: Exceeding the period for informing the applicants of the outcome of the evaluation process***

**Body/-ies concerned by the finding:** CFCU/IA, MHMR/PIU

According to the Financing Agreement, Annex II, *Article 2 Public procurement*: “(1) The tasks referred to in Article 1(1) shall be carried out by the IPA II beneficiary in accordance with the procedures and standard documents laid down and published by the Commission for the award of the procurement and grant contracts in external actions, in force at the time of the launched the procedure in question (PRAG), as well as in accordance with required visibility and communication standards referred to in Article 3(2).”

PRAG (Version 2019.0), stipulates the following:

*Section 2.9.4. Timetable* “The evaluation committee must be formed early enough to ensure that the members (and any observer appointed by the European Commission) are available in time to prepare and conduct the evaluation process. The tenders must be evaluated in time to allow the procedure to be completed within the validity period of the tenders. Extending the validity of tenders (see Section 2.9.5.) should be avoided.

It is very important that all tenderers, whether successful or unsuccessful, receive information without delay.”

*Section 6.5.10. Awarding grants*: “Notifications to the successful lead applicants on the outcome of the evaluation of their applications **must be provided within 6 months** following the submission deadline of the full application.”

During the performance of audit activities and checks related to requirement 3-Control activities from Internal Control Framework (Annex B to FwA), we identified that grant scheme “Support to the social inclusion of Roma and Egyptians” had been carried out through open call for proposals (Ref: EuropeAid/165-661/ID/ACT/ME). According to the Guidelines for grant applicants, which were published on 07/08/2019, in the section 2.2.3 it was stipulated that the deadline for submission of full application is 07/11/2019. In Section 2.5.2 of Guidelines Indicative timetable for this call for proposals was given and indicative dates of, inter alia, “8.Notification of award (after the eligibility check)(Step 3)” were set out on 18/02/2020 and “9.Contract signature” on 31/03/2020. Below this indicative timetable it was stated as follows: “*This indicative timetable refers to provisional dates (except for dates 2, 3, and 4) and may be updated by the contracting authority during the procedure. In such cases, the updated timetable will be published on the web site of DG International Cooperation and Development: [https://webgate.ec.europa.eu/europeaid/online-services/index.cfm?do=publi\\_welcome](https://webgate.ec.europa.eu/europeaid/online-services/index.cfm?do=publi_welcome) and the Contracting Authority website: [HTTP://WWW.CFCU.GOV.ME/EN/TENDERS/GRANTS/OPEN\\_CALLS](http://www.cfcu.gov.me/en/tenders/grants/open_calls) .*”

However, we found that neither previously mentioned dates within Indicative timetable were respected nor were they updated and published. Moreover, the activities from the date of the deadline for submission of full applications to notifying the applicants on the outcome of the evaluation process lasted too long. This led to the situation that provision of the Financial Regulation and PRAG, which is related to the period for informing the applicants of the outcome of the evaluation process (a maximum of six months from the final date for submission of complete proposals), was not respected.

Namely, the Contracting Authority sent to the successful lead applicant and unsuccessful applicant notifications on the outcome of the evaluation of their applications on 02/07/2020. Bearing in mind that the deadline for submission of full applications was 07/11/2019 it is evident that the period for informing the applicants of the outcome of the evaluation process was exceeded for 1 month and 25 days.

In our opinion a various factor caused this delay as follows:

- Firstly, the nomination of Evaluation Committee was not timely. Taking into account that call for proposals was published on 07/08/2019 and that the deadline for submission of full applications was 07/11/2019, it is incomprehensible that EvC was officially nominated by Head of CA on 10/12/2019 (after the EUD approval on 09/12/2019). The reasons for delay of nomination of EvC lie in the fact that PIU sent proposal of members of Evaluation Committee very late on 20/11/2019 and that EUD approved the nomination of EvC 14 days (09/12/2019) after the CA sent proposal (25/11/2019).
- Consequently, the first meeting of EvC was held on 18/12/2019. First step of the evaluation process was formally finished on 12/02/2020 when the Evaluation Report Step 1 was approved by EUD. On 13/02/2020 CA informed applicants who had satisfactory concept notes that their full applications will be evaluated.
- The evaluation process step 2 and 3 also lasted too long, taking into account that only two full applications had been evaluated. The first meeting of EvC was held on 14/02/2020 and the last was on 18/05/2020. The Evaluation Report Step 2 was prepared and signed on 20/05/2020 while EUD approved it on 17/06/2020. The ER step 3 was prepared and signed on 18/06/2020 and approved by EUD on 01/07/2020. Finally, the applicants were informed by CA on the outcome of the evaluation of their applications on 02/07/2020.

Therefore, the evaluation committee was not formed timely to ensure that the evaluation process is conducted on time and, in our opinion, the evaluation process lasted too long which led to the exceeding the prescribed deadline.

#### **Recommendation:**

We recommend to the NAO to undertake activities prescribed by Financial Regulation in the event of exceeding the period for informing all applicants of the outcome of the evaluation of their applications.

We recommend to CFCU/IA improving controls within the tendering and evaluation process in order to ensure timely implementation of the whole procedure with respecting the rules and provisions of relevant regulations. In case of changing provisional dates presented in indicative timetable, we recommend timely updating it and publishing on relevant sites.

We recommend to PIU/MHMR timely sending the proposal for the evaluation committee members for the upcoming procurements and calls for proposals under its responsibility in order to create preconditions for nomination of evaluation committee on time and starting the evaluation process.

#### **➤ Finding No 4: Non-respecting the procedure related to cancellation of procurement**

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

PRAG (Version 2018.0), stipulates the following:

Section 2.6.13. Cancellation of procurement procedures

“...

If a procurement procedure is cancelled, all tenderers must be notified in writing and as soon as possible of the reasons for the cancellation. A cancellation notice must be published. See the template in Annex A5.”

During the performance of audit activities and checks regarding procurement procedure “Further development of the local employment initiatives in Montenegro” (EuropeAid/139848/IH/SER/ME), we determined that prescribed procedures related to cancellation of procurement had not been fully respected. Namely, the Prior Information Notice for service tender procedure was published on 21/08/2018 and Contract Notice was primarily published on 09/10/2018 with the deadline for receipt of applications on 12/11/2018. However, this tender procedure was cancelled and re-launched. Cancellation notice was submitted to EUD for ex-ante control and approval on 15/11/2018. Cancellation notice was approved by EUD on 22/11/2018 and published on 27/11/2018. Reviewing the procedure and documentation related to cancellation and relaunching of this tender procedure, we did not find any evidence that tenderers were notified in writing on this situation. Considering the primarily established deadline for submission of applications (which was 12/11/2018) and date of submission of Cancellation Notice to EUD (which was 15/11/2018) as well as date of publishing the Cancellation Notice (which was 27/11/2018), it was necessary that all interested tenderers were notified in writing on cancellation of this procedure and reasons for the cancellation.

**Recommendation:**

We recommend to CFCU/IA to consistently apply all prescribed rules and procedures for each type of procurement and grant calls. If a procurement procedure is cancelled, all tenderers must be notified in writing and as soon as possible of the reasons for the cancellation.

➤ *Finding No 5: Omissions within the performed payment checks*

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

According to the Manual of Procedures (V2.0) of Operating Structure, chapter Financing Management, section 2 Functions and responsibilities within the finance division of IA, the following is prescribed:

“The use of public funds, both from the European Union as well as national public funds have to be accounted for in an accurate and consistent manner, following the principle of sound financial management with proper internal control mechanisms, rules and procedures in place that allow the creation of adequate audit trails.

...

While performing its daily activities Financial Controllers fulfil the following requirements of Annex B to the FWA (Internal Control Framework):

- Execution of control by using checklists. Checklists are also used to formalise supervision and approvals by management;
- Execution of double checks to ensure that payments are made only for justified payment requests which fulfil all contractual requirements;
- Execution of second level of control by the head of the FD to ensure the accurate financial management of the contract and that the procedure has been properly applied;
- Execution of procedures for confirmation of outputs delivery;
- ...
- Incorporation in the procedures of deadlines for each control activity.

The following functions are segregated:

- Payments initiation from payment verification;
- Payment verification from payment authorisation;
- Financial management from accounting.”

During the examination and checks related to payment and accounting procedures, we identified a number of omissions. In our opinion, these omissions are not materially significant, but given their high frequency, we consider they should be noted. Namely, we reviewed payment procedure and documentation for seven contracts. In 5 out of these 7 reviewed payment procedures, we identified certain incorrect entries in the checklists, as follows:

- a) Contract CFCU/MNE/085 (M1.0.1.02.01.C01)  
Annex 6.2 - Checklists for Service Contracts: Interim Payments: Action name is incorrect. It is entered „Enhancing the Educational System” instead of „Improving the Labor Market and Increasing Employability“;
- b) Contract CFCU/MNE/095 (M1.0.1.01.02.C03)  
Annex 6.7 - Checklists for Grant contracts: Advance payment: Action name is incorrect. It is entered „Further Development of the Local Employment Initiatives in Montenegro“ instead of „Improving the Labor Market and Increasing Employability“;
- c) Contract CFCU/MNE/099 (M1.0.1.02.01.C01)  
Annex 6.7 - Checklists for Grant contracts: Advance payment: Action name is incorrect. It is entered „Further Development of the Local Employment Initiatives in Montenegro“ instead of „Improving the Labor Market and Increasing Employability“. Reviewing and analyzing the checklist for advance payment and RfF with relevant checklist, we determined certain inconsistency. Annex 6.7 - *Checklists for Grant contracts: Advance payment* and Annex 8.1 - *IA RfF* as well as checklist for RfF (Annex 7) were prepared on 07/04/2020, verified on 07/04/2020 and approved on 08/04/2020. However, it was stated in all these documents that transfer of EU co-financing should not be made later than 28/03/2020.
- d) Contract CFCU/MNE/106(M1.0.2.02.01.C01)  
Annex 6.6 - Checklist for Supply contracts: Advance and balanced payment: Action name is incorrect. It is entered „Further Development of the Local Employment Initiatives in Montenegro“ instead of „Enhancing the Educational System“. The number of Invoice for balance payment is wrong. It is entered 10-13560 instead Inv No FA-846-MP01/20. Wrong line ministry, SPO, beneficiary, beneficiary responsible expert.
- e) Contract CFCU/MNE/115 (M1.0.3.02.01.C08)  
Reviewing and analyzing the accounting procedure related to advance payment, we determined certain inconsistency. Namely, RfF No. M1.0.3.02.01.C08.r1 was prepared on 24/02/2020, verified on 26/02/2020 and approved by Head of IA on 26/02/2020. However, we found that this RfF had been posted earlier in accounting system, i.e. on 20.02.2020. Additionally, during the conducting control activities and completion of Annex 2: *Accounting procedure Checklist*, this omission was not noticed by employees and it was confirmed that the posting date was the same as on the source document (although the source document was on a later date).

Considering aforementioned omissions and the fact that each checklist within payment and accounting procedure was double checked and verified by more than one employee, it could be concluded that established internal controls were not so effective, i.e. in those cases controls were just formal. Inadequate completion of the checklist increases the risk that payments can be made not only for justified payment requests, which meet all contractual requirements, but also leaves the possibility for irregularities.

#### **Recommendation:**

We recommend improving internal controls in order to ensure that established controls are not

just formal but real and effective. Check and correct, if necessary, all checklists for contracts that are still in progress.

## **ICFR 5 – MONITORING OF INTERNAL CONTROL FRAMEWORK**

### ***➤ Finding No 6: Lack of monitoring and reporting at action level***

#### **Body/-ies concerned by the finding: MHMR/PIU**

According to the MoP 2.0 Chapter Programme Action Monitoring: “Quarterly Action Monitoring Reports (QAMR) shall be drawn up under the coordination of NIPAC office and prepared by PIUs/Lead SPOs; QAMR contains financial data provided by the CFCU and DPW. In order to enhance efficiency and bring additional simplification of the procedures, one QAMR is prepared by SPO/PIUs for NIPAC Office and implementing agencies”. Therefore, PIU/SPO has the obligation and the responsibility to draw up action monitoring reports quarterly and submit it to NIPAC Office, which is responsible for preparing the Annual Report on Implementation of IPA II assistance and the Final Report on Implementation of IPA II assistance based on information deriving from 2nd Semi-Annual Sector Monitoring Report SASMR (with cut-off date 30th September), that is complemented with information deriving from 4th Quarterly Action Monitoring Reports QAMRs. QAMRs shall be submitted to the NIPAC office, quarterly during the year, with the following cut-off dates: 31st March, 30th June, 30th September and 31st December. QAMR shall be prepared and submitted to NIPAC office 10 working days after the cut-off dates.

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

Namely, after conducting the interview with PIU MHMR staff, we determined that none of the QAMR for 2019 or 2020 had been drawn up or submitted to the NIPAC Office, as prescribed by the MoP 2.0. Therefore, monitoring and reporting at action level has not been implemented in line with procedures. Furthermore, having an insight into the Annual Work Plan of PIU MHMR for 2020, we noticed that drawing up of QAMRs and submitting it to the NIPAC Office had not planned in the AWP.

To summarize, obligations regarding monitoring and reporting at the action level were not fulfilled in the previous period as prescribed by the procedures from MoP. In our opinion this may lead to potential risk that Semi-Annual Sector Monitoring Report SASMR and Annual Report on Implementation of IPA II assistance, prepared by NIPAC on the basis of QAMRs could be prepared based on the inadequate and incomplete information about actions/activities for which MHMR is responsible.

#### **Recommendation:**

We recommend to PIU MHMR/SPO to put the activity of drawing up of QAMRs and submitting it to the NIPAC/NIPAC Office within the prescribe deadline in the Annual Work Plan. Furthermore, in accordance with the AWP and obligations regarding monitoring and reporting, we recommend to MHMR/PIU to timely and regularly draw up QAMRs and submit it to the NIPAC/NIPAC Office. In this way, PIU MHMR will ensure that Monitoring and Reporting at Action Level are in accordance with prescribed procedures and IPA regulations. Also, the potential risk of preparing and issuing Semi-Annual Sector Monitoring Report



SASMR and Annual Report on Implementation of IPA II assistance by the NIPAC on the basis of inadequate and incomplete information about SOPEES will be mitigated.

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

During the conducted system audits in 2020, no findings were found with systemic character.

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

Not applicable.

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

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

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

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

Table 5

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

## 5. AUDITS OF SAMPLES OF TRANSACTIONS

Not applicable.

Costs declared as “recognised” in the Request for Funds (including Declaration of Expenditure) submitted by the NAO to the Commission constitute the population for audits of operations/transactions in order to establish AA’s opinion on legality and regularity of the expenditure.

Bearing in mind that in the previous period NAO did not declare any expenditure to EC, i.e. NAO did not submit RfFs (with DoE ) to the EC, AA was not in a position to perform audit of operations/transactions.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.



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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

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

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

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

Audit of accounts has been carried out in compliance with the Audit Authority Manual of procedures, Programme Audit Strategy 2021-2023, Framework Agreement and relevant Financing Agreement.

In the context of the Audit of accounts, and for the purposes of issuing 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 report 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 2015-2017 SOPEES, i.e. cumulative amounts presented for the programme, are correctly included in the accounts and correspond to the supporting accounting records maintained by relevant IPA bodies, i.e. in the National Fund Division (NF) and Implementing Agencies - Directorate for Finance and Contracting of the EU Assistance Funds (CFCU) and Public Works Administration (PWA).

In line with Article 59(2) of the Framework Agreement concluded between the Government of 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), NAO submitted Annual Financial Reports for 2020 to EC on 15<sup>th</sup> February 2021.

This audit of accounts covered Annual Financial Report for 2020 for the 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies.

The summarized data regarding the total amounts contracted, decommitted, disbursed, recognized and open pre-financing as well as recoveries and bank balance, which are submitted in the previously mentioned AFR for 2020, is presented in the table below:

**Financial/accounting year: 2020**

**Sectoral Operational Programme for Employment, Education and Social policies 2015-2017**

**Financing Agreement CRIS No 2015/037-895**

**Programme Budget:**

- **EU contribution: 15.299.999,98 EUR**
- **National contribution: 2.700.000,03 EUR**
- **Other sources: 0,00 EUR**

Local Contract Activities													Recovery context	Bank Balances (EU contrib)
Total Amount Contracted			Total Amou nt Decom mitted on closure	Total Amount Disbursed			Total Costs Recognized			Total Open Pre-financing				
4			6	8			10			12				
EU contribution	National contribution	Other sources	Total	EU contribution	National contrib.	Other sources	EU contribution	National contrib.	Other sources	EU contribution	National contrib.	Other sources	Total	Total
10.819.757,78	1.909.368,99	852.298,61	0,00	5.325.023,79	939.710,07	0,00	1.302.498,09	229.852,59	0,00	4.230.376,46	673.560,51	0,00	0,00	2.169.117,89

*Table 6*

The Audit Authority, on the basis of the Annual Financial Report as well as all required documentation provided to it by the NF and IAs (CFCU and PWA) verifies whether:

- 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.

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

In order to achieve the overall objective, the Audit Authority took into account the results from the System audits carried out in National Fund Division (NF) and Implementing Agencies (CFCU and PWA) in the previous period 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). Moreover, in accordance with the EGESIF Guidance 15-0016-04 of 03/12/2018, the AA performed additional verifications on the accounts in order to provide an opinion whether the accounts give a true and fair view. AA also checked whether the accounts have been prepared in accordance with the templates set out in Annex IV of Financing Agreement. Audit verifications on the amounts were carried out on the following evidence: Year-end cut-off reports, Requests for Funds from IAs, Liquidity book, Bank statements, Bridge financing documents and Transfer orders, accounting records in the General Ledgers, Financial reports of NF and IAs for 2020, Register of recoveries and supporting documents, Financial forecasts and Forecast of likely payment requests, Payment book of IAs.

Additionally, we performed relevant checks related to payment procedures for 15 payments and also went through 12 procedures for costs recognition to check whether costs have been incurred, paid and accepted and correspond to actual costs proven by supporting documents. 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. We decided to increase audited sample and took around 30% of total payments made and 60% of total number of costs recognised during 2020. In total 51 payments had been executed by IAs (CFCU and PWA) during 2020 out of which 39 pre-financings, 11 interim and one final payment. We performed checks on 15 payments out of which 5 pre-financings, 9 interim payments and one final payment. Costs recognised had been checked in the sense that the whole procedure and rules were respected and that all relevant supporting documents exist. During 2020 IAs issued written approvals and recognised costs in 20 cases out of which 11 written approvals for service contracts, 8 for grant contracts and one supply. For the purpose of this audit, we checked 12 of them out of which 8 service contracts, 3 grant contracts and one supply.

All testing related to Audit of accounts has been documented in the Checklists and working papers made in accordance with Audit Authority Manual of procedures.

Analysing Annual Financial Report for 2020 for 2015-2017 SOPEES and comparing it with data which we obtained by checking and testing documents and accounting records in CFCU and PWA, we determined that the following items were incorrectly presented in AFR:

- 4.Total amount contracted – EU contribution, National contribution and Other sources;
- 10.Total costs recognised - EU contribution, National contribution and Other sources;
- 12.Total Open Pre-financing – National contribution.

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

➤ ***Finding No 1: Incorrectly presented “Total amount contracted”***

Annual Financial Report for 2020, item No. 4

*Level of Priority:* Intermediate

*Body/-ies concerned by the finding:* NAO/NF

According to the Annual Financial Report for 2020 for 2015-2017 SOPEES, which NAO submitted to EC on 15<sup>th</sup> February 2021, total contracted amount is as follows:

- EU contribution: 10.819.757,78 EUR;
- National contribution: 1.909.368,99 EUR;
- Other sources: 852.298,61 EUR.

Based on documentation obtained, desk checks performed and on-the-spot checks in Implementing Agencies/Contracting Authorities, we identified discrepancies between data presented in AFR for 2020 (item No 4) and data and accounting entries in IAs. Namely, examining the Contract Registers in CFCU and PWA as well as relevant accounting records, we determined that total contracted amount by the end of 2020 was the following:

Implementing Agency/ Contracting Authority	Total contracted amount	Total contracted amount	Total contracted amount
	EU contribution	National contribution	Other sources
CFCU	10.704.320,13	1.888.997,64	852.448,61
PWA	66.970,65	11.818,35	0,00
<b>TOTAL</b>	<b>10.771.290,78</b>	<b>1.900.815,99</b>	<b>852.448,61</b>

**Table 7**

Therefore, differences between data presented in AFR for 2020 and data determined through testing and examination of relevant documentation in IAs are

- EU contribution: 48.467,00 EUR;
- National contribution: 8.553,00 EUR;
- Other sources: -150,00 EUR.

We found that differences regarding EU and National contribution are related to service contract CFCU/MNE/083. In this case, contracted amount had been increased exactly for 57.020,00 EUR (EU 48.467,00 + 8.553,00 Nat) by signing Addendum No 2. However, this Addendum was signed on 15/01/2021 when it actually entered into force. When it comes to difference within other sources, we found that this amount is related to grant contract CFCU/MNE/166. The amount of contracted amount-other sources entered in CFCU's registers and accounting records is 9.012,02 EUR while in supporting tables for preparation of AFR we identified the amount of 8.862,02 EUR.

**Recommendation:**

We recommend preparation and presentation data of total contracted amount in Annual Financial Reports on the basis of accurate data collected from Implementing Agencies/Contracting Authorities and exclusively related to the reference period for which Annual Financial Report is issued.

**Auditee's response: *Recommendation accepted***

Addendum for service contract No. CFCU/MNE/083 is signed on December 17th 2020 by the CFCU as a Contracting Authority and as such entered in the Information system. Information in the AFR is included in accordance with signature date of the CA and information available at the moment of preparation. However, after submission of the AFR, it is noticed that Addendum was signed by the contractor in January 2021.

DMS will keep in mind recommendation given in this regard and in the future special attention will be given in order to prevent similar technical mistakes.

**Implementation deadline:** Preparation and submission of next AFR

**Responsible person/s:** NAO

**Auditor's final conclusion:**

Controls related to preparation of the annual financial reports should be improved in order to ensure providing complete and accurate information in annual financial reports.

We will monitor the implementation of recommendation.

➤ ***Finding No 2: Reported incorrectly amounts of costs recognised***

Annual Financial Report for 2020, item No. 10

*Level of Priority:* Major

*Body/-ies concerned by the finding:* NAO/NF

According to the Financing Agreement between the Government of the Montenegro and the Commission of the European Communities concerning the 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies, Annex II *General conditions*, Article 5 (5):

*„Cost recognised in the accounting system maintained under the section 4 of this Article must have been incurred, paid and accepted and correspond to actual costs proven by supporting documents and shall be used when appropriate to clear pre-financing paid by the IPA II beneficiary under local contracts.“*

According to the Annual Financial Report for 2020 for 2015-2017 SOPEES, total costs recognised are reported as follows:

- EU contribution: 1.302.498,09 EUR;
- National contribution: 229.852,59 EUR;
- Other sources: 0,00 EUR.

Based on documentation obtained, desk checks performed, on-the-spot checks and substantive tests in Implementing Agencies/Contracting Authorities, we determined that data presented in

AFR for 2020 (item No 10) contain certain amounts which, taking into account aforementioned provisions of Financing Agreements, could not be considered as costs recognised.

During this audit engagement we performed checks of documentation regarding the payments made and cost recognition in 2020. We performed relevant checks whether reported recognised costs had been incurred, paid, accepted and correspond to actual costs proven by supporting documents.

Analyzing the relevant registers and documentation in IAs and NF as well as accounting records and analytical card from bank account, we determined that total amount reported as costs recognised contain costs for two service contracts which were accepted by CFCU in December 2020 but these costs had not been paid in 2020. These accepted but yet not paid costs were clearly identified in CFCU's evidences and accounting records.

By examination and tests performed in CFCU and PWA, we determined the following total amounts of costs which, by the end of 2020, had been incurred, paid, accepted and correspond to actual costs proven by supporting documents:

Implementing Agency/ Contracting Authority	Total costs recognised EU contribution	Total costs recognised National contribution	Total costs recognised Other sources
CFCU	1.072.803,09	189.318,19	21.754,23
PWA	21.844,24	3.854,86	0,00
<b>TOTAL</b>	<b>1.094.647,33</b>	<b>193.173,05</b>	<b>21.754,23</b>

*Table 8*

Presented amounts have been properly entered into accounting records of CFCU and PWA and it can be clearly identified in their accounting system.

Bearing in mind previously mentioned, differences between data reported in AFR for 2020 as costs recognised and data determined through testing and examination of relevant documentation in IAs and NF are:

- EU contribution: 207.850,76 EUR;
- National contribution: 36.679,54 EUR;
- Other sources: -21.754,23 EUR.

Reviewing and analyzing documentation related to cost recognition in CFCU and reconciling the results of these tests with information and supporting tables for preparation of AFR provided by NF, we determined that NAO reported costs in the amount of 244.530,30 EUR (EU part 207.850,76 + 36.679,54 Nat) as recognised although these costs had not been paid in the reference period (year 2020). Namely, we found that CFCU issued written approval for the second interim report of service contract CFCU/MNE/090 on 25/12/2020 in the amount 154.988,62 EUR (EU part 131.740,33 + 23.248,29 Nat). However, we determined that payment regarding this interim report was made in January 2021 (Payment order 40001614 from 21/01/2021). Also, for service contract CFCU/MNE/084 written approval on third interim report in the amount of 89.541,68 EUR (EU part 76.110,43 + 13.431,25 Nat) was issued by CFCU on 30/12/2020 but payment on this interim report was executed in February 2021 (Payment order 40012647 from 05/02/2021). Therefore, these costs are actually accepted but not paid and until the end of reference period (2020) did not satisfy all conditions prescribed by Financing Agreement to be considered as recognised. Furthermore, CFCU recorded these costs properly, i.e. as accepted but not paid.

When it comes to difference within item „Total costs recognised-other sources“, we found that

during 2020 CFCU issued written approvals for 8 grant contracts and recognised costs-other sources (financed from private contribution) in the total amount of 21.754,23 EUR. However, this amount was not presented and reported in AFR for 2020.

Taking into account all previously mentioned, we consider that, in the process of preparation of Annual Financial Report for 2020, NF did not adequately use information and data from IAs' registers and accounting records. This is because IAs properly differentiated „costs accepted but not paid“ from „costs recognised“ but in the AFR they were reported cumulatively as costs recognised.

### **Recommendation:**

We recommend preparation and presentation of the annual financial reports in a manner that total amount of costs recognised is consisted exclusively from the costs which are recorded in the accounting system as 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.

We recommend improving controls related to preparation of the annual financial reports in order to ensure providing complete and accurate annual financial reports.

### **Auditee's response: *Recommendation shall be reconsidered upon receiving EC clarifications/instructions***

By interpreting relevant provisions in regard to costs recognition, our opinion is that cost incurred, but not paid by the Contracting Authority, are related to the reporting period and as such should be recorded by the CA and reported by DMS. However, bearing in mind that understanding and interpretations of requirements for costs recognition differs, DMS requested clarifications on cost recognition under IPA II programmes from the EC and interpretation of the relevant rules. Attached is letter sent to EC.

*E-1 Letter to EC from 26/02/2021*

As soon as clarifications and clear instructions on the cost recognition will be provided by the EC, proposed recommendation shall be treated in accordance with it.

When it comes to costs recognized-other sources, DMS will take special attention on providing data on all sources of financing in the Annual Financial Report(s).

**Implementation deadline:** Preparation and submission of next AFR

**Responsible person/s:** NAO

### **Auditor's final conclusion:**

As someone who bear the overall responsibility for the financial management of IPA II assistance in Montenegro, NAO prepares and submits AFRs on the basis of information and data gathered from structure which is established for managing and implementation of each particular programme. In this sense, NAO reports about, inter alia, Total amounts contracted by IAs/CAs, Total amounts disbursed by IAs/CAs, Total open pre-financings on the basis of information provided by IAs/CAs on pre-financing payments made and amounts of cleared pre-financings. Accordingly, Total costs recognised should be reported as costs which are incurred under the signed contract, accepted and paid by IA/CA (directly or through clearance of pre-financing under the contract) and proven by supporting documents.

This finding and recommendation remains and we will verify the implementation.



➤ **Finding No 3: Incorrect amount of “Total Open Pre-financing (Nat. contribution)”**

Annual Financial Report for 2020, item No. 12

Level of Priority: Intermediate

Body/-ies concerned by the finding: NAO/NF

According to the Annual Financial Report for 2020 for 2015-2017 SOPEES, Total Open Pre-financing was reported in amounts:

- EU contribution: 4.230.376,46 EUR;
- National contribution: 673.560,51 EUR;
- Other sources: 0,00 EUR.

Based on documentation obtained, desk checks performed, on-the-spot checks and substantive tests in Implementing Agencies/Contracting Authorities, we determined that amounts reported in AFR for 2020 (item No 12) do not completely match the data which we determined in Implementing Agencies..

During this audit engagement we performed checks of documentation regarding the pre-financing payments made and cleared pre-financing through cost recognition in 2020. Analyzing the relevant registers and documentation in IAs and NF as well as accounting records and analytical card from bank account, we made recalculation of all payments made and costs recognised in order to determine the total amount of pre-financing payments made by IAs until the end of 2020 and the total amount of cleared pre-financings. The results are presented in the table below:

Implementing Agency/ Contracting Authority	Total pre-financing paid EU contribution	Total pre-financing paid National contribution	Total cleared pre-financing EU contribution	Total cleared pre-financing National contribution
CFCU	4.355.578,57	768.631,51	141.130,13	24.905,31
PWA	15.927,98	2.810,82	0,00	0,00
<b>TOTAL</b>	<b>4.371.506,59</b>	<b>771.442,33</b>	<b>141.130,13</b>	<b>24.905,31</b>

**Table 9**

Based on data presented within the previous table, we calculated Total Open Pre-financing and came to the following amounts:

- EU contribution: 4.230.376,46 EUR;
- National contribution: 746.537,02 EUR.

According to the checks through financial and accounting records and performed calculation and by comparing the obtained results with data reported in AFR for 2020, we determined that amount of Total Open Pre-financing (EU contribution) was properly reported while Total Open Pre-financing (National contribution) was not reported correctly, i.e. it was presented less for 72.976,51 EUR than it actually is.

**Recommendation:**

We recommend improving controls related to preparation of the annual financial reports in order to ensure providing complete and accurate annual financial reports. All relevant data, inter

alia total open pre-financing, have to be adequately checked and reconciled with Implementing Agencies before entering it in annual financial reports.

**Auditee's response: *Recommendation accepted***

DMS noticed calculation error in the open pre-financing data regarding national co-financing. Namely, it should be noted that data related to the open pre-financing shall be provided based on the data regarding the payments made/disbursed amounts and costs recognized. Bearing in mind that calculation error occurred, special attention will be given to the supporting table(s) and evidence in regard to the open pre-financing, which will further allow extracting correct data based on the disbursed/recognized amounts.

It should be noted that open pre-financing (EU part) is correctly presented in the report, as well as paid/disbursed amounts and costs recognized on both (EU and national co-financing), meaning that mistake occurred in relation to calculation of national part of open pre-financing does not affect correctness of data on disbursed/costs recognized amounts.

Additional checks and reconciliation with CAs records are done through process of preparation of AFR and will be done in the future as well, taking care that no similar errors occur.

**Implementation deadline:** Preparation and submission of next AFR

**Responsible person/s:** NAO

**Auditor's final conclusion:**

We will monitor the implementation of recommendation.

Based on audit verifications performed, we summarized the results of checks and determined discrepancies in the following table:

Categories/items from AFR	Sources	Amount reported in AFR for 2020 (1)	Amount verified by AA (2)	Differences (1-2) EUR
Total Amount Contracted	EU contribution	10.819.757,78	10.771.290,78	48.467,00
	National contribution	1.909.368,99	1.900.815,99	8.553,00
	Other sources	852.298,61	852.448,61	-150,00
Total Amount Decommited on closure	EU contribution	0,00	0,00	0,00
	National contribution	0,00	0,00	0,00
	Other sources	0,00	0,00	0,00
Total Amount Disbursed	EU contribution	5.325.023,79	5.325.023,79	0,00
	National contribution	939.710,07	939.710,07	0,00
	Other sources	0,00	0,00	0,00
Total Costs Recognized	EU contribution	1.302.498,09	1.094.647,33	207.850,76
	National contribution	229.852,59	193.173,05	36.679,54
	Other sources	0,00	21.754,23	-21.754,23

Total Open Pre-financing	EU contribution	4.230.376,46	4.230.376,46	0,00
	National contribution	673.560,51	746.537,02	72.976,51
	Other sources	0,00	0,00	0,00
Recovery context	Errors	0,00	0,00	0,00
	Irregularities	0,00	0,00	0,00
	Fraud	0,00	0,00	0,00
	No context	0,00	0,00	0,00
Bank Balances (EU contribution)	Total	2.169.117,89	2.169.117,89	0,00

Table 10

It is determined that all amounts which AA verified by our own recalculations and checks, have been properly entered into evidences and accounting records of CFCU and PWA and it can be clearly identified in their accounting system. However, NF did not properly use data from IAs' evidences and accounting records and, according to identified differences, reported incorrectly amounts in AFR for 2020.

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

Audit conclusion is based on the analysis of procedures, information, data, documents, reports, adequately documented in check lists and working papers related to the Audit of Accounts.

On the basis of work performed, the Audit Authority can confirm that total amounts of Programme Budget, Total Amount De-committed on closure, Total Amount Disbursed, Recovery context and Bank Balances (EU contribution) correspond to the amounts specified in the verified documents collected from NF and IAs (CFCU and PWA).

However, in general we cannot confirm that the Annual Financial Report for the financial/accounting year 2020 for the 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES) is complete, accurate and true.

We highlight the most important reasons that had an effect on making conclusion on the completeness, accuracy and veracity of the Annual Financial Report or statements for 2020.

We determined that item 4.Total amount contracted, per sources of financing (EU contribution, National contribution and Other sources), was not correctly reported in AFR because it is not in line with amounts which we found in registers and evidences of IAs.

Two items in AFR (10 and 12) were reported incorrectly in amounts that are material, i.e. the determined error is above the materiality threshold of 2%.

Namely, item 10. Total costs recognised - EU contribution is incorrectly (more) reported for the 207.850,76 EUR which represents 15,96% of reported amount (1.302.498,09 EUR), *National contribution* is incorrectly (more) reported for the 36.679,54 EUR which represents 15,96% of reported amount (229.852,59 EUR) and *Other sources* were less reported, i.e. were not reported at all although they had been recognised in amount of 21.754,23 EUR.

Additionally, item 12. Total Open Pre-financing – National contribution was incorrectly (less) reported for the amount of 72.976,51 EUR which represents 10,83% of reported amount 673.560,51 EUR.

Consequently, the relevant percentages based on aforementioned total amounts submitted to the Commission, also, are not correct. This refers to items No 5, 11 and 13 within AFR for 2020.

Taking into account all deficiencies of the Annual Financial Report for 2020 and the fact that information which was presented is not completely in line with data that exist in evidences of IAs, we concluded that procedure of preparation of AFR for 2020 had not been applied adequately and in this case did not functioned efficiently and effectively. In this sense, it should be improved as well as the coordination between responsible IPA bodies.

**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.

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 the period January-February 2021 the Audit Authority regularly performed follow-up of the findings and recommendations given in the course of previous audits.

After the analysis of the received responses and collected documentation, we assessed the status of each individual recommendation with the respective explanation as follows:

List of findings from the Report on System Audit No. 3011-1-06-19/2 (February, 2020)					
No	Finding	Recommendation	Status as at beginning of February 2021	Priority level	New deadline for implementa
1	<p><b>Staffing and employees' turnover in CFCU</b> (Details: See section 4.2)</p> <p><b>Body/-ies concerned by the finding: CFCU/IA</b></p> <p>According to the Rulebook on internal organization and systematization of the Ministry of Finance, as well as according to WLA for 2019, 37 work posts are envisaged within the CFCU out of which 9 in Finance and Accounting Division.</p> <p>During the audit performed, based on insight into submitted documentation and interviews with CFCU staff, we determined the following:</p>	<p>CFCU should tackle the issue of employee turnover. Detailed analysis should be done to discover the main reasons of the turnover.</p> <p>In order to ensure effective functioning of the Finance and Accounting Division, we recommend to CFCU to fill the vacancy of the head of the Division as well as vacant work posts</p>	<p><b>Status:</b> <b>Partially implemented</b></p> <p>According to the auditee's response and submitted documentation, we concluded that finding was properly treated and the most of recommended activities had been implemented. The lack of employees in the Finance and Accounting Division is resolved, Head of Division has been appointed and according to the interview conducted we have been informed that internal trainings are being conducted on</p>	<p><b>Reduced from Intermediate to Low</b></p>	<p><b>June 2021</b></p>

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	<ul style="list-style-type: none"> <li>Technical assistance projects implemented in the past period had direct influence and impact on all employees and provided them with the possibility to raise awareness and gain experiences from countries already implemented stages and processes commenced in Montenegro. A number of trainings, seminars, study visits, workshops have been organised aiming to upgrade professional knowledge and the opportunities for continuing professional development of staff in all IPA bodies. Also, a significant progress is being made towards solving issues regarding retention and motivation policy due to fact that Decision on top-up of salaries for IPA positions was adopted by Government of Montenegro in March 2019, as a part of a retention policy which aims at ensuring the retention of staff in IPA Body and promoting their effectiveness.</li> <li>However, we identified a significant outflow of experienced and trained staff in CFCU. Based on insight into staff overviews it is evident that during the last year certain number of employees left CFCU. For example Head of Finance and Accounting Division, three Financial Controllers, one Quality Assurance Specialist and Accountant left CFCU. Bearing in mind that the total number of employees in CFCU during this period was between 27 and 33, we consider that previously mentioned staff turnover is significant because it presents around 20% of total number of employees. Moreover, the core problem with staff turnover is related to Finance and Accounting Division which is of the utmost importance in the following period taking into</li> </ul>	<p>in accordance with the Rulebook on internal organization and systematization of the Ministry of Finance and needs expressed in Work Load Analysis.</p> <p>Also, we recommend organizing appropriate education and trainings for newly engaged staff in order to train them and enable to perform assigned tasks in the best way.</p>	<p>a regular basis. However, certain number of employees is engaged on temporary employment contracts, some work posts are still vacant and insignificant turnover of employees was identified during 2020. Bearing in mind all previously mentioned, we determined that CFCU mostly undertook proper activities in order to resolve identified deficiencies and we consider recommendation partially implemented. Also, we reduce the priority level to low and we will monitor the full implementation of given recommendations.</p>		
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	<p>account the functions and responsibilities of this Division (verifying that the expenditures incurred, paid and declared to the NAO comply with applicable Union and national law, the programme, the conditions for support of the action and the conditions of the contract, the goods or services have been delivered, and the payment claims by the recipient are correct;; making payments to, and recovery from, the recipients of IPA II assistance; etc.). Also, the work post of Head of Finance and Accounting Division is currently vacant, i.e. the Head of CFCU gave "Written Authorization for Appointment" to Financial controller to act as Head of Finance and Accounting Division until the formal employment of new head of this Division. We noted that this "acting head" situation lasts until April 2019.</p> <ul style="list-style-type: none"> <li>At the beginning of this system audit the situation in Finance and Accounting Division was the following: five of nine work posts were filled, out of which two Financial Controllers on permanent basis while two FC and Accountant were engaged by contracts which have a temporary character. We identified this situation as more risky and during the performance of system audit we discussed with auditee on this issue. In meantime CFCU has undertaken certain measures in order to mitigate the risk of lack the employees and has engaged additional staff. However, as this new staff are not employed for an indefinite period and are not fully skilled to perform required tasks, it cannot be considered as a permanent solution (based on the latest staff overview, 3 individuals in the Financial division are employed for an indefinite period and 5 temporary). Therefore, it is needed</li> </ul>				
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	to employ the employees in accordance with the Rulebook on internal organization and systematization of the Ministry of Finance, provide adequate trainings to newly engaged staff and this way ensure that Finance and Accounting Division can perform its functions and tasks in full capacity.				
2	<p><b>Understaffing and employees' turnover in PWA</b> (Details: See section 4.3)</p> <p><b>Body/-ies concerned by the finding: PWA/IA</b></p> <p>Employees are the most significant factor of the management and control system. Timely and effective project implementation depends on the assurance of a sufficient number of employees with the required experience and knowledge.</p> <p>According to the WLA for 2019 (last updated in May 2019), 39 work posts are envisaged and needed within the PWA for implementing IPA activities.</p> <p>During the audit performed, based on insight into enclosed documentation and interviews with PWA staff, we determined the following:</p> <p>A significant outflow of experienced and trained staff in PWA has been identified. Based on insight into staff overviews it is evident that during the 2018 it was a significant employee fluctuation and leaves which was the subject of reservation in Annual Management Declaration for 2018.</p> <p>During 2019, PWA has undertaken certain measures in order to mitigate the risk of lack the employees and has engaged additional staff. However, as this new staff are not employed for an indefinite period and are not fully skilled to perform required tasks, it cannot be considered as a permanent solution. In the</p>	<p>PWA should tackle the issue of employee turnover. Detailed analysis should be done to discover the main reasons of the turnover. A retention policy is essential to retain employees business, particularly the staff of key positions/functions, but also to retain good quality and overloaded staff.</p> <p>In order to ensure effective functioning of the Implementing Agency, we recommend to PWA to fill vacant work posts in accordance with the Rulebook on internal organization and systematization of the Public Works Administration and needs expressed in Work Load Analysis.</p> <p>Also, we recommend organizing appropriate education and trainings for newly engaged staff in order to train them and enable to perform assigned tasks in the best way.</p>	<p><b>Status:</b> <b>Not implemented</b></p> <p>On the basis of auditee's response, we determined that IA is facing with huge staff turnover and that given recommendations were not treated in a sufficient manner. Recommendations haven't been implemented yet. We will monitor the implementation of the recommendation.</p>	<b>Intermediate</b>	<b>June 2021</b>



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	<p>period of performing this system audit the total number of employees in Implementing Agency Public Works Administration was 31 out of which 16 on a permanent basis and 15 were engaged by contracts which have a temporary character.</p> <p>Due to fact that almost 50% of current staff are engaged on a temporary basis and taking into account the needs expressed in WLA for 2019 and draft WLA for 2020, it is needed to employ staff in accordance with the Rulebook on internal organization and systematization of the Public Works Administration and ensure that Implementing Agency can perform its functions and tasks in full capacity.</p>				
3	<p><b>Staffing and trainings</b> (Details: See section 4.4)</p> <p><b>Level of Priority: Intermediate</b></p> <p><b>Body/-ies concerned by the finding: MHMR/PIU</b></p> <p>According to the Rulebook on internal organization and systematization of the Ministry for Human and Minority Rights, in Department for European integration, programming and implementing of EU funds 4 work posts are foreseen. According to the WLA for 2019, 3 employees in PIU are needed.</p> <p>Based on audit performed, insight into enclosed documentation and interviews with PIU staff, we determined that only one staff member (SPO) is engaged on a permanent basis, i.e. has a contract for indefinite period. Other two employees (Implementation Manager and Programming Manager) are engaged by contracts which have a temporary character. Moreover, Programming Manager has work contract in Department for cooperation with Religious communities although</p>	<p>In order to ensure effective functioning of the PIU, we recommend to MHMR to fill work posts in accordance with the Rulebook on internal organization and systematization of the Ministry for Human and Minority Rights and needs expressed in Work Load Analysis.</p> <p>Also, we recommend organizing appropriate education and trainings for staff in order to train them and enable to perform assigned tasks in the best way.</p>	<p><b>Status: Implemented ( preliminary)</b></p> <p>Bearing in mind that PIU engaged all of three needed (according to the WLA) employees on a permanent basis and that adequate trainings had been organised, we consider this finding preliminary implemented.</p> <p>Taking into account the new institutional framework and the fact that new PIU will be formed, we will definitely monitor it.</p>	n/a	n/a

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	<p>the Project Implementation Unit in Ministry for Human and Minority Rights is Department for European integration, programming and implementing of EU funds. As two staff members are employed on a temporary basis it cannot be considered as a permanent solution and it is needed to employ the employees in accordance with the Rulebook on internal organization and systematization of the Ministry for Human and Minority Rights.</p> <p>Bearing in mind that this PIU was not part of operating structure in the previous programming period (2007-2013) and that staff members do not have previous experience in implementation of IPA projects, it is needed to provide adequate trainings for employees in PIU in order to ensure adequate quality of staff to reach the objectives.</p>				
4	<p><b>Strengthening internal audit capacities</b> (Details: See section 4.5)</p> <p><b>Level of Priority:</b></p> <p><b>Body/-ies concerned by the finding: All IPA bodies</b></p> <p>According to the Law on management and internal controls in public sector, the Internal Audit Department cannot have less than 3 internal auditors with the Head of the Internal Audit Department.</p> <p>Auditing the function of IAD in all IPA bodies we found that number of staff is not in line with the number of staff envisaged in the Rulebooks of Internal organization and systematization.</p> <p>For example, according to the valid Rulebook of Internal organization and systematization of Ministry of Finance, seven job positions are foreseen in the Internal Audit Department and according to job descriptions all of them are in charge of auditing</p>	<p>In order to ensure performing internal audit in IPA bodies on a regular basis, we recommend strengthening internal audit capacities by filling vacant work posts in the Rulebooks of Internal organization and systematization and also respecting the needs expressed in the WLA.</p>	<p><b>Status: Partially implemented</b></p> <p>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.</p> <p>Nevertheless, no audits have been conducted by this Unit.</p> <p>Having in mind that the recommendation is partially implemented we will monitor the full implementation of recommendation.</p>	<b>Intermediate</b>	<b>June 2021</b>

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<p>EU funds. However, five job positions are filled while two job positions are vacant. Additionally, Ministry of Finance has signed 17 Agreements on the entrustment of internal audit work. By signing these Agreements IAD is committed to perform internal audit in the institutions with which agreements have been signed, which significantly increases their work load. The WLA has shown the necessity for additional staff. IAD conducted audits of DMS-NAO SO and CFCU during 2018 and issued audit reports.</p> <p>The Rulebook of internal organization and systematization of the Ministry of Labour and Social Welfare foresees 4 job positions in the Internal Audit Department out of which 2 are vacant. PIU in MLSW was a subject of internal audit in 2018.</p> <p>Also, the Rulebook of internal organization and systematization of the Ministry of Education foresees 4 job positions in total in the Internal Audit Department. It is determined that 3 internal auditors, Head of Internal Audit Department, Superior Internal Auditor and Junior internal auditor, are employed. Job position of Senior Internal Auditor is vacant. According to the job descriptions in Rulebook "Senior Internal Auditor" and "Junior Internal Auditor" are in charge of auditing EU funds. So Internal Audit Department currently can not perform the audit activities relating EU Funds with full capacities.</p> <p>The Rulebook of internal organization and systematization of the Public Works Administration foresees 4 job positions in the Internal Audit Department and all are vacant. We noted that PWA was subject to audit of IAD of Ministry of Sustainable Development and Tourism, as this IPA body in the previous period (before 2019) was a part of mentioned ministry.</p> <p>When it comes to the Ministry of Science, it is</p>				
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	<p>determined that this Ministry does not have internal audit department but internal audit tasks are entrusted to IAD of Ministry of finance. This PIU was not audited by IAD during 2018. Ministry of Human and Minority Rights also does not have internal audit department and internal audit tasks are entrusted to IAD of Ministry of Labour and Social Welfare. In 2018 this PIU was not subject to any internal audit. Until now, NIPAC office was not subject to any internal audit engagement.</p> <p>Lack of employees in the Internal Audit Departments, who are in charge of auditing EU funds may affect on performance of tasks as well as quality of conducting the audits.</p>				
5	<p><b>IT policy – Back up of data and trainings</b> (Details: See section 4.6)</p> <p><b>Body/-ies concerned by the finding: All IPA bodies</b></p> <p>According to the Manual of Procedures (V2.0), chapter IT policy, section Storage of data and back-up, inter alia the following is prescribed:</p> <ul style="list-style-type: none"> <li>• All important data is backed up on a daily basis;</li> <li>• The IPA Body staff shall always store data in the file/applications server (servers);</li> <li>• The User Coordinator shall ensure that backup information is maintained according to backup policy;</li> <li>• The IT Coordinator shall ensure that all key servers and systems have documented backup procedures. These procedures must be detailed and be essentially a step-by-step guide to how the task is completed for the various servers and data are backed up;</li> </ul>	<p>We recommend providing adequate archiving and back-up of data according to the procedures described in MoP Chapter IT policy in order to prevent data loss or ensure restoring of lost data.</p> <p>We recommend initiating and providing trainings related to IT Security policy.</p>	<p><b>Status: Partially Implemented</b></p> <p>According to the auditees' response, we consider that significant progress has been made regarding this issue. Namely, IPA staff are currently using Share folder systems, in order to maintain all relevant data and documents. Once per week, most of them stores all data from the Shared folder on external hard disk, which was recently purchased. Certain IPA bodies purchased internal servers for storing data. However, permanent "centralized" solution regarding general IT security will be resolved by implementing Action plan ISO 27002. Action plan ISO 27002 regarding IT security policy was adopted on the Government session held on March 19<sup>th</sup> 2020 and in the upcoming period various activities will be conducted in order to</p>	Intermediate	September 2021

	<ul style="list-style-type: none"> <li>• All storage media should be labelled clearly and stored in a secured, lockable fireproof safe or cabinet;</li> <li>• The IT Coordinator shall ensure that there are detailed restore procedures in place for each major system backed up. These procedures must be detailed and be essentially a step-by-step guide to how the task is completed for the various servers and data are restored in the event of a problem occurring e.g. a server/disk crash or lost/corrupted data.</li> </ul> <p>On the basis of performed on-the-spot checks and conducted interviews, we determined that archiving and backup of data is not performed in accordance with prescribed procedures. There is no properly defined back up storage. So, there is a risk of loss of data in case of error in information systems in which information is destroyed by failures or negligence in storage, transmission, or processing. To mitigate the risk of losing data, the staff from IPA bodies use external hard disks and USB disks for archiving data from their computers. They perform this periodically. Previously mentioned external hard disks are stored in the premises of each IPA body. However, archiving data in this way is not secure enough and is not in accordance with prescribed procedures for back up and archiving data which are described in MoP, chapter IT policy.</p> <p>Also, we have concluded that employees from IPA bodies did not have enough trainings related to IT security policy. In the period under review insignificant number of employees attended few trainings related to cyber security and computer data protection. Bearing in mind the importance of IT security, using file servers, having adequate and</p>		<p>implement this Action plan.</p> <p>Bearing in mind that the Steering Committee was established by the relevant Decision of the Ministry of Public Administration on November 17<sup>th</sup> 2020 the progress is evident.</p> <p>However, activities envisaged in the IT Action plan ISO 27002 are not implemented and AA will continue to monitor until the recommendation is fully implemented.</p>		
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	secure data storage, employees from IPA bodies should have more trainings with regard to this policy.				
6	<p><b>Inadequate and incomplete monitoring and reporting at sectoral and action level</b> (Details: See section 4.7)</p> <p><b>Body/-ies concerned by the finding: NIPAC Office<sup>1</sup></b></p> <p>According to IPA II Implementing Regulation No 447/2014, Article 4, the National IPA Coordinator (NIPAC) shall be the main counterpart of the European Commission for the overall process of strategic planning, coordination of programming, monitoring of implementation, evaluation and reporting of IPA II assistance. Therefore, in line with the IPA II IR, the responsibility for the monitoring of implementation belongs to the NIPAC, who has to set up an adequate monitoring framework under the OS.</p> <p>“The main role in reporting at programme level is with NIPAC office. Annual Report on Implementation of IPA II Assistance shall be drawn up under the coordination of NIPAC office with input from the bodies of the operating structures and related monitoring reports.</p> <p>When it comes to Monitoring and Reporting at Sectoral Level, the Semi-annual Action Monitoring Reports are prepared by NIPAC Office based on the inputs of the quarterly reports.</p> <p>Monitoring and Reporting at Action Level includes preparation of Quarterly Action Monitoring Reports which shall be drawn up under the coordination of NIPAC office and prepared by PIUs/Lead SPOs. QAMRs shall be submitted to the NIPAC office, quarterly during the year, with the following cut-off dates: 31<sup>st</sup> March, 30<sup>th</sup> June, 30<sup>th</sup> September and 31<sup>st</sup></p>	<p>We recommend to NIPAC Office carrying out proper coordination and taking all relevant and necessary activities, under its responsibility, in order to ensure that Monitoring and Reporting at Sectoral and Action Level are satisfactory and in accordance with prescribed procedures and IPA regulations. This way the potential risk of preparing and issuing Annual Report on Implementation of IPA II assistance on the basis of inadequate and incomplete information about SOPEES will be mitigated.</p>	<p><b>Status: Partially implemented</b></p> <p>Due to pandemic caused by COVID-19, we consider that 2020 was very challenging year in regard of implementation of IPA II as well as proper and adequate monitoring and consequently reporting on implementation.</p> <p>Based on the auditee’s response and enclosed evidences, we found that NIPAC Office undertook respective activities in order to improve coordination and to ensure adequate Monitoring and Reporting regarding SOPEES.</p> <p>However, we have concluded that implemented activities did not fully yield results. We still have the situation that Quarterly Monitoring Reports have not been submitted regularly as well as Semi-annual monitoring report.</p> <p>Bearing this in mind, we consider that monitoring and reporting at the sector and action level were not satisfactory.</p> <p>We will monitor the implementation of recommendation.</p>	Intermediate	September 2021

<sup>1</sup> As monitoring and reporting at the action level is under the responsibility of PIUs, finding is indirectly addressed to all PIUs and will be under the scope of following system audits in PIUs

<p>December. QAMR shall be prepared and submitted to NIPAC office 10 working days after the cut-off dates.</p> <p>For proper coordination of the reporting requirements, NIPAC Office shall lead the process of preparing of all monitoring reports. In order to ensure timely preparation and high quality of reports, the NIPAC office shall:</p> <ul style="list-style-type: none"> <li>• Sets a time-schedule for preparing the annual reports;</li> <li>• Issue guidelines and instructions to SPOs/PIUs regarding their input for annual reports at Action level;</li> <li>• Ensures for the quality control of the input, submitted by the SPOs/PIUs;</li> <li>• Monitor the time-schedule for preparation of annual reports, approval and submission.”</li> </ul> <p>Based on documentation obtained, desk checks performed and interviews conducted we determined that monitoring activities regarding IPA II 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES) is not at satisfied level and is not in accordance with prescribed procedures.</p> <p>Namely, reviewing documentation related to preparation of Annual Report on Implementation of IPA II Assistance in 2018 we determined that this report was issued in time but was not based on information deriving from Semi-Annual Sector Monitoring Report. Actually, during the on the spot check at the NIPAC Office we were not presented any SASMR because this type of monitoring document has not been prepared and issued in the previous period. Due to this fact we consider that monitoring and reporting at sectoral level has not been implemented in line with prescribed procedures.</p>				
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	<p>Also, we determined that Monitoring and Reporting at Action Level was not at the satisfied level in the previous period. On the basis of enclosed documentation, we determined that only one PIU (MLSW) respected procedures and responsibility of drawing up Quarterly Action Monitoring Reports (QAMR) for each period of implementation while one PIU (MoS) partially fulfilled this obligation. The rest of PIUs did not respect obligation preparing and submitting QAMRs to NIPAC Office. Therefore, we consider that monitoring and reporting at action level has not been implemented in line with procedures.</p> <p>Therefore, monitoring and reporting at the sector and action level were not satisfactory in the previous period, i.e. were not carried out in line with prescribed procedures. In our opinion this may lead to potential risk that Annual Report on Implementation of IPA II assistance could be prepared on the basis of inadequate and incomplete information about SOPEES.</p>				
<b>List of findings from the Report on System Audit No. 3011-1-06-402/3 (December, 2020)</b>					
No	Finding	Recommendation	Status as at beginning of February 2021	Priority level	New deadline for implementation
1.	<p><b>Insufficient understanding of the risk management process</b> (Details: See section 4.1)</p> <p><b>Body/-ies concerned by the finding: All IPA bodies</b></p> <p>According to MoP, Chapter Risk Management: “Risk management goal is to bring the related risks to an acceptable level by carrying out measures that would mitigate the likelihood of risk occurrence,</p>	<p>We recommend to all IPA bodies to organize additional trainings for all persons involved in the risk management process and to provide detailed instructions on how and when</p>	<p><b>Status: Partially implemented</b></p> <p>AA has already identified certain efforts of management and operating structure in the previous period in regard of improving risk management. We respect efforts of all persons involved in risk</p>	<b>Intermediate</b>	<b>June 2021</b>



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<p>impact of risk realization or both at the same time.</p> <p>Analysis of risks with defined level of risk acceptance may provide reasonable assurance that the objectives will be achieved. However, even a well-designed and operated Risk management cannot guarantee that all objectives will be fully achieved.</p> <p>In practice, Risk management activity at any level of the IPA structure and authorities is implemented by:</p> <ul style="list-style-type: none"> <li>• Preventive actions;</li> <li>• Administrative verifications;</li> <li>• On-the-spot verifications;</li> <li>• Any other action/ initiative that may mitigate identified risks.</li> </ul> <p>The Risk management includes different activities like identifying, assessing, prioritizing risks, planning, implementation and review of mitigating or corrective actions as well as in advance planning and control.”</p> <p>Based on documentation obtained, desk checks performed and interviews conducted, we concluded that risk management activities regarding IPA II 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES) and in general understanding of risk management is not at satisfactory level.</p> <p>We identified that all formal requirements in Risk Management have been met, that everyone in the IPA structure recognizes the risks, fills in risk alert forms, fulfils risk register and makes action plans.</p> <p>Despite all the formally met conditions in the process of identifying risks and planning actions that will reduce them, we consider that this is an area that needs more attention in order to improve this process and thus contribute to achieving the set goals.</p>	<p>to complete each annex related to risk management. These trainings should be designed to contribute to a better understanding of risk management, a clearer defining of risks and mitigating actions, etc.</p>	<p>management activities. For instance, CFCU had made respectable efforts to improve understanding of risk management process by it’s employees. Also, NAOSO as risk coordinator for the whole risk management process, continuously undertakes activities in order to overcome the gaps in understanding the procedures related to risk management. However, considering all relevant procedures, interviews conducted, documentation reviewed and activities performed (or not performed) by auditees, we have concluded that risk management needs additional improvements. Therefore, some activities have already been undertaken and we will monitor the full implementation of recommendation.</p>	
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	<p>Namely, it is a common situation that risk alert forms are filled in just before the risk panel and on the same date the risk registers and action plans are filled out. Because of this approach, it happens that: dates are entered incorrectly, risks are vaguely defined, risk mitigation actions are planned too generally and without clear timelines, the registers are filled in the wrong column, the same risk is recognized several times, risks are deleted from the risk register and so on. During the conducted interviews with risk managers, we found that the auditees had recognized the risks and had reacted to them in a timely manner but they had not had a record of what actions they had undertaken.</p> <p>Below we have singled out some examples of deficiencies and misunderstandings of risk management process in different bodies:</p> <ul style="list-style-type: none"> <li>• MHMR-PIU Risk alert forms were completed on 25/06/2020 while in the risk register states that the risks were identified on 03/12/2019. Also, the risk register did not include the risk of delays in implementation of the Action but this risk was identified within the risk action plan.</li> <li>• MoE-PIU Risk Action Plan, under risk no 3 the following is defined: <ul style="list-style-type: none"> <li>- Risk trigger event, situation or factor - Need for continuous capacity building of IPA officers for IPA project implementation</li> <li>- Mitigation measures - Continuous training of personnel</li> <li>- Responsibility - Head of PIU</li> <li>- Timeline for implementation of measures – Continuous</li> </ul> </li> </ul>			
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	<ul style="list-style-type: none"> <li>- Action already taken (follow up information) <ul style="list-style-type: none"> <li>- PIU officers attended IPA -targeted training events.</li> </ul> </li> <li>• CFCU-IA <p>The risk No. 82 in the Risk register is defined as follows:</p> <ul style="list-style-type: none"> <li>- Risk trigger event, situation or factor - The following activities defined in the ToR related to Component 1 (activity 4 and 5) and Component 2 (activity 4) have not been implemented yet. Bearing in mind that the end of the contract is September 2020, there is a certain risk that the indicators defined in the ToR will not be fulfilled.</li> <li>- Impact area and description of potential consequences - Improvement and strengthening of institutional set-up and legal framework in the area of state aid and public procurement</li> <li>- Recommended preventive/contingency actions - The contract manager responsible for this project informed his superiors on any obstacle that could affect the implementation of the project. It is planned that the contractor submits to the CFCU the request for an addendum (no cost extension).</li> </ul> </li> <li>• MLSW-PIU <p>All risk alert forms and all risks in Risk Register are from 25/06/2020.</p> </li> <li>• PWA-IA <p>The risk of Lack of staff (Insufficient number of employees, Staff have been overloaded) was opened for nine times/positions in the Risk Register. There are also active risks in the RR with a</p> </li> </ul>				
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	<p>probability and impact equal to zero.</p> <p>In our opinion, this approach cannot ensure measures that mitigate the likelihood of risk occurrence, impact of risk realization or both at the same time.</p> <p>These measures do not ensure the achievement of the goal since the specific action is planned only after the emergence of a risky situation, and this can often be untimely. Our opinion is that all this occurs due to insufficient understanding of the risk management process.</p>				
2.	<p><b>Non-compliance with prescribed rules and procedures related to contracting and payment procedures</b> (Details: See section 4.2)</p> <p><b>Body/-ies concerned by the finding: CFCU/IA</b></p> <p>According to 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), the following provisions shall be respected:</p> <p>Article 12 Conditions for entrusting the IPA II beneficiary with budget implementation tasks</p> <p>“... (2) When managing IPA II funds, the IPA II beneficiary shall respect the principles of sound financial management, transparency and non-discrimination, and shall ensure the visibility of IPA II assistance. The IPA II beneficiary shall guarantee a level of protection of the financial interests of the European Union equivalent to that required under the Financial Regulation when managing IPA II funds, with due consideration for:</p> <p>a) the nature of the tasks entrusted to them and amounts involved;</p>	<p>We recommend to CFCU/IA to:</p> <ul style="list-style-type: none"> <li>- Strictly respect all principles and rules for implementation of Union financial assistance under IPA II in order to protect Union and national interests in line with provisions of FwA and Financial Regulation. Failure to fully respect relevant rules and principles can jeopardize financial interests and may lead to risk of incurring additional unnecessary costs.</li> <li>- Avoiding publishing different variants of one document/annex under the same call for proposals/tender and clearly defining all relevant requirements needed to be fulfilled. Once requirements are established and published, they should be fully respected by the end.</li> <li>- Improving controls in order to ensure that provisions of contracts</li> </ul>	<p><b>Status:</b> <b>Not implemented</b></p> <p>According to the auditee's response, we consider that CFCU is aware of omissions made within this grant scheme and necessity to pay more attention to the future calls and procurements. CFCU should take care of fully respecting all relevant rules and procedures and should avoid the risk of potential failure to respect the principles of sound financial management, transparency and equal treatment.</p> <p>We will monitor the implementation through all future procurements and calls for proposals.</p>	<b>Major</b>	<b>June 2021, continuously</b>

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<p>b) the financial risks involved; c) the level of assurance stemming from their systems, rules and procedures together with the measures taken by the Commission to supervise and support the implementation of the tasks entrusted to them. (3) In order to protect the financial interests of the Union, the IPA II beneficiary shall:</p> <p>a) set up and ensure the functioning of an effective and efficient internal control system; ... d) apply appropriate rules and procedures for providing financing from IPA II assistance through grants, procurement and financial instruments.”</p> <p>According to the PRAG (Version 2018.0), section 2.10.2. Contract preparation and signature, among the other provisions, the following is stipulated: “When preparing the contract for signature, the contracting authority must proceed as follow: ... -Sign and date all originals of the contract and initial all pages of the special conditions and most relevant annexes including, for grants, the budget. In case of grants, the contracts <b>must be signed within 3 months</b> from the date of notification of the evaluation results, ... -Send the signed originals of the contract to the successful tenderer/applicant, who must countersign them within 30 days of receipt. -The tenderer or grant applicant keeps one original and returns the other(s) to the contracting authority with any financial guarantee(s) required in the contract. If the successful tenderer/applicant fails to do this within the specified deadline or indicates at any stage that it is not willing or able to sign the contract, the tenderer/applicant cannot be awarded the contract. ...”</p>	<p>signed are fully respected.</p>			
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<p>Reviewing and analysing documentation related to Grant scheme “<i>Training and education activities for deficit occupations and for boosting employability of RE population</i>” (EuropeAid/163191/ID/ACT/ME), we have determined deficiencies within the contracting and payment procedures for certain grant contracts. The restricted Call for proposals was published on 01/03/2019. We identified that two different templates of grant contract (special conditions) had been published at the same time. Namely, Standard Grant Contract with all relevant annexes was published as zipped file Annex G and the second template of Grant contract, which was pre-adapted for this call for proposals, was published as a separate document/annex. The main difference between these two annexes (templates) is the requirement regarding pre-financing guarantee. In the standard template, the provision of pre-financing guarantee is foreseen as optional (if deemed necessary and appropriate by the Contracting Authority). In the template pre-adapted for this particular call for proposals, provision of the pre-financing guarantee is mandatory (Article 4.2: “<i>The first instalment of pre-financing shall be accompanied by a financial guarantee amounting to EUR &lt;amount, usually the amount of the first pre-financing payment&gt; and complying with the requirements of Article 15.8 of Annex II.</i>”).</p> <p>We determined that evaluation phase had been finished by mid-August 2019 when Evaluation Report Step 3 was approved by EUD (15/08/2019). Notifications to nine successful applicants were sent on 13/09/2019 out of which four selected applicants were private entities. Request for global endorsement was approved by EUD on 14/11/2019 and Contracting Authority sent contracts for signature on 15/11/2019. However, analysing all of 9 signed grant contracts (special conditions), we</p>				
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<p>determined that 8 contracts had been signed by Head of CA on 15/11/2019 while one of them had been signed by CA on 30/01/2020. Considering that notifications on the outcome of the evaluation were sent on 13/09/2019 and the rule that the contracts <b>must be signed within 3 months</b> from the date of notification of the evaluation results, it is evident that in case of grant contract CFCU/MNE/094 the previously mentioned rule has been violated. We have been informed by CA that delay in signing of this grant contract was because private entity didn't want to sign contract due to inability to provide pre-financing guarantee. Lastly, this grant contract was signed in the same way as the other three with private entities within this grant scheme</p> <p>As aforementioned, according to the rules and documentation published for this call for proposals, four out of nine successful applicants (private entities) were obliged to provide pre-financing guarantee because they are profit making entities. These four grant contracts were signed in line with template of Grant contract which was pre-adapted for this call for proposals (the provision of pre-financing guarantee was a must). However, after signing the contracts all of four awarded applicants/private entities informed CA that they were neither able to provide the pre-financing guarantee due to high banking costs, nor to start with realisation of project activities from its own budget, due to insufficiency of available funds. Therefore, we identified non-compliance with previously noted provisions of PRAG section 2.10.2 because awarded grant applicants signed the contracts and returned the originals to the Contracting Authority without financial guarantee required in the contract.</p> <p>In order to resolve this situation and to ensure the implementation of these grant contracts, CA decided to proceed with addenda to all four contracts and to</p>				
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<p>remove the requirement for the pre-financing guarantee. The addenda to four grant contracts (CFCU/MNE/094, CFCU/MNE/097, CFCU/MNE/099 and CFCU/MNE/100) was sent on 05/02/2020 to EUD on ex-ante control. Addendums were signed by the end of February and at the beginning of March 2020. Afterwards, CA executed advance payments for these grant contracts (without requiring pre-financing guarantees). According to the Annex II (General Conditions) to grant contracts, article 15.4. <i>“The initial pre-financing payment shall be made within 30 days of receipt of the payment request by the contracting authority.”</i> In addition to the fact that payments were made with a significant delay in relation to the dates of signing grant contracts, in case of one contract advance payment was also executed with delay in relation to the date of signing the addendum to the contract. CA explained that this payment has been postponed due to Government measures caused by COVID-19. Considering the date of signature of addendum and the starting date when Government measures took place, we found this explanation irrelevant.</p> <p>The summarized data with dates is presented in the following table:</p> <table><tr><th>Number of grant contract</th><th>Notification of evaluation results</th><th>CA signature date of contract</th><th>Contractor signature date of contract</th><th>Addendum signature date</th><th>Date of pre-financing payment</th></tr><tr><td>CFCU/MNE/094</td><td>13/09/2019</td><td>30/01/2020</td><td>03/02/2020</td><td>27/02/2020</td><td>12/03/2020</td></tr><tr><td>CFCU/MNE/097</td><td>13/09/2019</td><td>15/11/2019</td><td>25/11/2019</td><td>28/02/2020</td><td>12/03/2020</td></tr><tr><td>CFCU/MNE/099</td><td>13/09/2019</td><td>15/11/2019</td><td>21/11/2019</td><td>03/03/2020</td><td>13/04/2020</td></tr><tr><td>CFCU/MNE/100</td><td>13/09/2019</td><td>15/11/2019</td><td>21/11/2019</td><td>12/03/2020</td><td>02/04/2020</td></tr></table> <p>Additionally, we determined that addendums of contracts did not have any change regarding the implementation period of actions. Bearing in mind the explanations and arguments for waiving the pre-</p>	Number of grant contract	Notification of evaluation results	CA signature date of contract	Contractor signature date of contract	Addendum signature date	Date of pre-financing payment	CFCU/MNE/094	13/09/2019	30/01/2020	03/02/2020	27/02/2020	12/03/2020	CFCU/MNE/097	13/09/2019	15/11/2019	25/11/2019	28/02/2020	12/03/2020	CFCU/MNE/099	13/09/2019	15/11/2019	21/11/2019	03/03/2020	13/04/2020	CFCU/MNE/100	13/09/2019	15/11/2019	21/11/2019	12/03/2020	02/04/2020				
Number of grant contract	Notification of evaluation results	CA signature date of contract	Contractor signature date of contract	Addendum signature date	Date of pre-financing payment																													
CFCU/MNE/094	13/09/2019	30/01/2020	03/02/2020	27/02/2020	12/03/2020																													
CFCU/MNE/097	13/09/2019	15/11/2019	25/11/2019	28/02/2020	12/03/2020																													
CFCU/MNE/099	13/09/2019	15/11/2019	21/11/2019	03/03/2020	13/04/2020																													
CFCU/MNE/100	13/09/2019	15/11/2019	21/11/2019	12/03/2020	02/04/2020																													



<p>financing guarantees, i.e. that awarded GBs are neither able to provide the pre-financing guarantee due to high banking costs nor to start with realisation of project activities from its own budget, due to insufficiency of available fund, the question is whether they really waited for the payment of funds to start activities. Taking into account that advance payments were made 3 months (or more) later than predicted start date of implementation of the actions, there was a high risk that planned activities would not be fully implemented.</p> <p><u>Conclusion:</u></p> <p>Awarded grant beneficiaries failed to comply with provisions of signed contracts, i.e. did not provide pre-financing guarantees, and Contracting Authority undertook the risk of potential failure to respect the principles of sound financial management, transparency and equal treatment. In this way Union and national financial interests were compromised and were not protected in line with provisions of FwA and Financial Regulation bearing in mind that CFCU/IA cannot ensure that pre-financing could be repaid in case of termination of contracts. Having this in mind, we consider that in this case CFCU/IA did not fully adhere to the principle of sound financial management. Principle of transparency was not fully respected in case of Grant contract CFCU/MNE/094. The principle of equal treatment was compromised by the fact that in the published pre-adapted template of grant contract the provision of pre-financing guarantee was a must but later, after the contracts signature, CA waived from requesting financial guarantee. In such a way preferential treatment was given to these four beneficiaries over others who maybe did not apply at this call for proposals because of requirement for pre-financing guarantee.</p>				
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3.	<p><b>Exceeding the period for informing the applicants of the outcome of the evaluation process</b> (Details: See section 4.3)</p> <p><b>Body/-ies concerned by the finding: CFCU/IA; MHMR/PIU</b></p> <p>According to the Financing Agreement, Annex II, <i>Article 2 Public procurement</i>: “(1) The tasks referred to in Article 1(1) shall be carried out by the IPA II beneficiary in accordance with the procedures and standard documents laid down and published by the Commission for the award of the procurement and grant contracts in external actions, in force at the time of the launched the procedure in question (PRAG), as well as in accordance with required visibility and communication standards referred to in Article 3(2).”</p> <p>PRAG (Version 2019.0), stipulates the following:</p> <p><i>Section 2.9.4. Timetable</i> “The evaluation committee must be formed early enough to ensure that the members (and any observer appointed by the European Commission) are available in time to prepare and conduct the evaluation process. The tenders must be evaluated in time to allow the procedure to be completed within the validity period of the tenders. Extending the validity of tenders (see Section 2.9.5.) should be avoided. It is very important that all tenderers, whether successful or unsuccessful, receive information without delay.”</p> <p><i>Section 6.5.10. Awarding grants</i>: “Notifications to the successful lead applicants on the outcome of the evaluation of their applications <b>must be provided within 6 months</b> following the submission deadline of the full application.”</p> <p>During the performance of audit activities and</p>	<p>We recommend to the NAO to undertake activities prescribed by Financial Regulation in the event of exceeding the period for informing all applicants of the outcome of the evaluation of their applications.</p> <p>We recommend to CFCU/IA improving controls within the tendering and evaluation process in order to ensure timely implementation of the whole procedure with respecting the rules and provisions of relevant regulations. In case of changing provisional dates presented in indicative timetable, we recommend timely updating it and publishing on relevant sites.</p> <p>We recommend to PIU/MHMR timely sending the proposal for the evaluation committee members for the upcoming procurements and calls for proposals under its responsibility in order to create preconditions for nomination of evaluation committee on time and starting the evaluation process.</p>	<p><b>Status:</b> <b>Not implemented</b></p> <p>For the efficient and effective functioning of a system it is necessary that all the links in the chain be proactive and effective. We consider that all actors in the system should efficiently and effectively do the work within their competences.</p> <p>We will monitor the implementation through all future procurements and calls for proposals.</p>	<p><b>Intermediate</b></p>	<p><b>June 2021,</b> continuously</p>
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<p>checks related to requirement 3-Control activities from Internal Control Framework (Annex B to FwA), we identified that grant scheme “Support to the social inclusion of Roma and Egyptians” had been carried out through open call for proposals (Ref: EuropeAid/165-661/ID/ACT/ME). According to the Guidelines for grant applicants, which were published on 07/08/2019, in the section 2.2.3 it was stipulated that the deadline for submission of full application is 07/11/2019. In Section 2.5.2 of Guidelines Indicative timetable for this call for proposals was given and indicative dates of, inter alia, “8.Notification of award (after the eligibility check)(Step 3)” were set out on 18/02/2020 and “9.Contract signature” on 31/03/2020. Below this indicative timetable it was stated as follows: “<i>This indicative timetable refers to provisional dates (except for dates 2, 3, and 4) and may be updated by the contracting authority during the procedure. In such cases, the updated timetable will be published on the web site of DG International Cooperation and Development:</i> <a href="https://webgate.ec.europa.eu/europeaid/online-services/index.cfm?do=publi_welcome_and_the_contracting_authority_website">https://webgate.ec.europa.eu/europeaid/online-services/index.cfm?do=publi_welcome_and_the_contracting_authority_website</a>: <a href="http://www.cfcu.gov.me/en/tenders/grants/open_calls">http://www.cfcu.gov.me/en/tenders/grants/open_calls</a>.”</p> <p>However, we found that neither previously mentioned dates within Indicative timetable were respected nor were they updated and published. Moreover, the activities from the date of the deadline for submission of full applications to notifying the applicants on the outcome of the evaluation process lasted too long. This led to the situation that provision of the Financial Regulation and PRAG, which is related to the period for informing the applicants of the outcome of the evaluation process (a maximum of six months from the final date for</p>				
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	<p>submission of complete proposals), was not respected.</p> <p>Namely, the Contracting Authority sent to the successful lead applicant and unsuccessful applicant notifications on the outcome of the evaluation of their applications on 02/07/2020. Bearing in mind that the deadline for submission of full applications was 07/11/2019 it is evident that the period for informing the applicants of the outcome of the evaluation process was exceeded for 1 month and 25 days.</p> <p>In our opinion a various factor caused this delay as follows:</p> <ul style="list-style-type: none"> <li>• Firstly, the nomination of Evaluation Committee was not timely. Taking into account that call for proposals was published on 07/08/2019 and that the deadline for submission of full applications was 07/11/2019, it is incomprehensible that EvC was officially nominated by Head of CA on 10/12/2019 (after the EUD approval on 09/12/2019). The reasons for delay of nomination of EvC lie in the fact that PIU sent proposal of members of Evaluation Committee very late on 20/11/2019 and that EUD approved the nomination of EvC 14 days (09/12/2019) after the CA sent proposal (25/11/2019).</li> <li>• Consequently, the first meeting of EvC was held on 18/12/2019. First step of the evaluation process was formally finished on 12/02/2020 when the Evaluation Report Step 1 was approved by EUD. On 13/02/2020 CA informed applicants who had satisfactory concept notes that their full applications will be evaluated.</li> <li>• The evaluation process step 2 and 3 also</li> </ul>				
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	<p>lasted too long, taking into account that only two full applications had been evaluated. The first meeting of EvC was held on 14/02/2020 and the last was on 18/05/2020. The Evaluation Report Step 2 was prepared and signed on 20/05/2020 while EUD approved it on 17/06/2020. The ER step 3 was prepared and signed on 18/06/2020 and approved by EUD on 01/07/2020. Finally, the applicants were informed by CA on the outcome of the evaluation of their applications on 02/07/2020.</p> <p>Therefore, the evaluation committee was not formed timely to ensure that the evaluation process is conducted on time and, in our opinion, the evaluation process lasted too long which led to the exceeding the prescribed deadline.</p>				
4.	<p><b>Non-respecting the procedure related to cancellation of procurement</b> (Details: See section 4.4)</p> <p><b>Body/-ies concerned by the finding: CFCU/IA</b></p> <p>PRAG (Version 2018.0), stipulates the following: Section 2.6.13. Cancellation of procurement procedures “... <i>If a procurement procedure is cancelled, all tenderers <b>must</b> be notified in writing and as soon as possible of the reasons for the cancellation. A cancellation notice must be published. See the template in Annex A5.</i>”</p> <p>During the performance of audit activities and checks regarding procurement procedure “Further development of the local employment initiatives in Montenegro” (EuropeAid/139848/IH/SER/ME), we</p>	<p>We recommend to CFCU/IA to consistently apply all prescribed rules and procedures for each type of procurement and grant calls. If a procurement procedure is cancelled, all tenderers must be notified in writing and as soon as possible of the reasons for the cancellation.</p>	<p><b>Status:</b> <b>Not implemented</b></p> <p>We will monitor the implementation through all future procurements and calls for proposals.</p>	<b>Intermediate</b>	<b>June 2021,</b> continuously

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	<p>determined that prescribed procedures related to cancellation of procurement had not been fully respected. Namely, the Prior Information Notice for service tender procedure was published on 21/08/2018 and Contract Notice was primarily published on 09/10/2018 with the deadline for receipt of applications on 12/11/2018. However, this tender procedure was cancelled and re-launched. Cancellation notice was submitted to EUD for ex-ante control and approval on 15/11/2018. Cancellation notice was approved by EUD on 22/11/2018 and published on 27/11/2018. Reviewing the procedure and documentation related to cancellation and relaunching of this tender procedure, we did not find any evidence that tenderers were notified in writing on this situation. Considering the primarily established deadline for submission of applications (which was 12/11/2018) and date of submission of Cancellation Notice to EUD (which was 15/11/2018) as well as date of publishing the Cancellation Notice (which was 27/11/2018), it was necessary that all interested tenderers were notified in writing on cancellation of this procedure and reasons for the cancellation.</p>				
5.	<p><b>Omissions within the performed payment checks</b> (Details: See section 4.5)</p> <p><b>Body/-ies concerned by the finding: CFCU/IA</b></p> <p>According to the Manual of Procedures (V2.0) of Operating Structure, chapter Financing Management, section 2 Functions and responsibilities within the finance division of IA, the following is prescribed:</p> <p>“The use of public funds, both from the European Union as well as national public funds have to be accounted for in an accurate and consistent manner, following the principle of sound financial</p>	<p>We recommend improving internal controls in order to ensure that established controls are not just formal but real and effective. Check and correct, if necessary, all checklists for contracts that are still in progress.</p> <p><b>Note:</b> During the contradictory</p>	<p><b>Status:</b> <b>Implemented</b></p> <p>According to auditee’s response, attached documentation and additional controls we determined that omissions had been corrected through documents which have been encompassed within this system audit and that IA had carried out relevant checks through the rest of checklists related to other contracts. We consider this finding closed.</p>	n/a	n/a

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<p>management with proper internal control mechanisms, rules and procedures in place that allow the creation of adequate audit trails.</p> <p>...</p> <p>While performing its daily activities Financial Controllers fulfil the following requirements of Annex B to the FWA (Internal Control Framework):</p> <ul style="list-style-type: none"> <li>• Execution of control by using checklists. Checklists are also used to formalise supervision and approvals by management;</li> <li>• Execution of double checks to ensure that payments are made only for justified payment requests which fulfil all contractual requirements;</li> <li>• Execution of second level of control by the head of the FD to ensure the accurate financial management of the contract and that the procedure has been properly applied;</li> <li>• Execution of procedures for confirmation of outputs delivery;</li> <li>• ...</li> <li>• Incorporation in the procedures of deadlines for each control activity.</li> </ul> <p>The following functions are segregated:</p> <ul style="list-style-type: none"> <li>• Payments initiation from payment verification;</li> <li>• Payment verification from payment authorisation;</li> <li>• Financial management from accounting.</li> </ul> <p>During the examination and checks related to payment and accounting procedures, we identified a number of omissions. In our opinion, these omissions are not materially significant, but given their high frequency, we consider they should be</p>	<p>procedure and before issuing the final system audit report, CFCU presented evidences that omissions, which were found, had been corrected. So, we consider that first part of recommendation is closed. However, we need the information whether auditee checked the rest of checklists related to other contracts.</p> <p>Additionally, it should be considered whether there are direct links between this finding and the finding given within the system audit conducted during 2019 (section 4.2).</p>			
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	<p>noted. Namely, we reviewed payment procedure and documentation for seven contracts. In 5 out of these 7 reviewed payment procedures, we identified certain incorrect entries in the checklists, as follows:</p> <p>f) Contract CFCU/MNE/085 (M1.0.1.02.01.C01)  <u>Annex 6.2 - Checklists for Service Contracts: Interim Payments:</u> Action name is incorrect. It is entered „Enhancing the Educational System” instead of „Improving the Labor Market and Increasing Employability“;</p> <p>g) Contract CFCU/MNE/095 (M1.0.1.01.02.C03)  <u>Annex 6.7 - Checklists for Grant contracts: Advance payment:</u> Action name is incorrect. It is entered „Further Development of the Local Employment Initiatives in Montenegro“ instead of „Improving the Labor Market and Increasing Employability“;</p> <p>h) Contract CFCU/MNE/099 (M1.0.1.02.01.C01)  <u>Annex 6.7 - Checklists for Grant contracts: Advance payment:</u> Action name is incorrect. It is entered „Further Development of the Local Employment Initiatives in Montenegro“ instead of „Improving the Labor Market and Increasing Employability“. Reviewing and analyzing the checklist for advance payment and RfF with relevant checklist, we determined certain inconsistency. Annex 6.7 - Checklists for Grant contracts: Advance payment and Annex 8.1 - IA RfF as well as checklist for RfF (Annex 7) were prepared on 07/04/2020, verified on 07/04/2020 and approved on 08/04/2020.</p>				
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	<p>However, it was stated in all these documents that transfer of EU co-financing should not be made later than 28/03/2020.</p> <p>i) Contract CFCU/MNE/106(M1.0.2.02.01.C01) <u>Annex 6.6 - Checklist for Supply contracts:</u> <u>Advance and balanced payment:</u> Action name is incorrect. It is entered „Further Development of the Local Employment Initiatives in Montenegro“ instead of „Enhancing the Educational System“. The number of Invoice for balance payment is wrong. It is entered 10-13560 instead Inv No FA-846-MP01/20. Wrong line ministry, SPO, beneficiary, beneficiary responsible expert.</p> <p>j) Contract CFCU/MNE/115 (M1.0.3.02.01.C08) Reviewing and analyzing the accounting procedure related to advance payment, we determined certain inconsistency. Namely, RfF No. M1.0.3.02.01.C08.r1 was prepared on 24/02/2020, verified on 26/02/2020 and approved by Head of IA on 26/02/2020. However, we found that this RfF had been posted earlier in accounting system, i.e. on 20.02.2020. Additionally, during the conducting control activities and completion of Annex 2: <i>Accounting procedure Checklist</i>, this omission was not noticed by employees and it was confirmed that the posting date was the same as on the source document (although the source document was on a later date).</p> <p>Considering aforementioned omissions and the fact that each checklist within payment and accounting procedure was double checked and verified by more than one employee, it could be concluded that</p>				
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	established internal controls were not so effective, i.e. in those cases controls were just formal. Inadequate completion of the checklist increases the risk that payments can be made not only for justified payment requests, which meet all contractual requirements, but also leaves the possibility for irregularities.				
6.	<p><b>Lack of monitoring and reporting at action level</b> (Details: See section 4.6)</p> <p><b>Body/-ies concerned by the finding: MHMR/PIU</b></p> <p>According to the MoP 2.0 Chapter Programme Action Monitoring: “Quarterly Action Monitoring Reports (QAMR) shall be drawn up under the coordination of NIPAC office and prepared by PIUs/Lead SPOs; QAMR contains financial data provided by the CFCU and DPW. In order to enhance efficiency and bring additional simplification of the procedures, one QAMR is prepared by SPO/PIUs for NIPAC Office and implementing agencies”. Therefore, PIU/SPO has the obligation and the responsibility to draw up action monitoring reports quarterly and submit it to NIPAC Office, which is responsible for preparing the Annual Report on Implementation of IPA II assistance and the Final Report on Implementation of IPA II assistance based on information deriving from 2nd Semi-Annual Sector Monitoring Report SASMR (with cut-off date 30th September), that is complemented with information deriving from 4th Quarterly Action Monitoring Reports QAMRs. QAMRs shall be submitted to the NIPAC office, quarterly during the year, with the following cut-off dates: 31st March, 30th June, 30th September and 31st December. QAMR shall be prepared and submitted to NIPAC office 10 working days after the cut-off dates.</p>	<p>We recommend to PIU MHMR/SPO to put the activity of drawing up of QAMRs and submitting it to the NIPAC/NIPAC Office within the prescribe deadline in the Annual Work Plan. Furthermore, in accordance with the AWP and obligations regarding monitoring and reporting, we recommend to MHMR/PIU to timely and regularly draw up QAMRs and submit it to the NIPAC/NIPAC Office. In this way, PIU MHMR will ensure that Monitoring and Reporting at Action Level are in accordance with prescribed procedures and IPA regulations. Also, the potential risk of preparing and issuing Semi-Annual Sector Monitoring Report SASMR and Annual Report on Implementation of IPA II assistance by the NIPAC on the basis of inadequate and incomplete information about SOPEES will be mitigated.</p> <p><b>Note:</b> During the contradictory procedure and before issuing the final</p>	<p><b>Status: Partially implemented</b></p> <p>Bearing in mind that PIU did not submit all requested documentation (evidences), we consider this recommendation partially implemented.</p> <p>The implementation will be monitored.</p>	Intermediate	June 2021

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<p>Based on documentation obtained, desk checks performed and interviews conducted we determined that monitoring activities regarding IPA II 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES) were not at satisfactory level and were not in accordance with prescribed procedures.</p> <p>Namely, after conducting the interview with PIU MHMR staff, we determined that none of the QAMR for 2019 or 2020 had been drawn up or submitted to the NIPAC Office, as prescribed by the MoP 2.0. Therefore, monitoring and reporting at action level has not been implemented in line with procedures. Furthermore, having an insight into the Annual Work Plan of PIU MHMR for 2020, we noticed that drawing up of QAMRs and submitting it to the NIPAC Office had not planned in the AWP.</p> <p>To summarize, obligations regarding monitoring and reporting at the action level were not fulfilled in the previous period as prescribed by the procedures from MoP. In our opinion this may lead to potential risk that Semi-Annual Sector Monitoring Report SASMR and Annual Report on Implementation of IPA II assistance, prepared by NIPAC on the basis of QAMRs could be prepared based on the inadequate and incomplete information about actions/activities for which MHMR is responsible.</p>	<p>system audit report, PIU sent the following response “Due to the COVID 19 and specific situation, first quarterly report was not sent, but after that we sent regularly following reports.” To confirm this, please submit the evidences (e-mails, official letters) that QAMRs for second, third and fourth quarter of 2020 were regularly sent to NIPAC office.</p>			
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**Table 11**

In 2019 AA carried out system audit that included all IPA bodies which constitute managing and operating structure for 2015-2017 SOPEES. Seven findings and recommendations had been given out of which two were implemented, four have been partially implemented and one not implemented.

In system audit carried out during 2020 six findings and recommendations had been given out of which one is implemented, two have been partially implemented and three not implemented.

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

Not applicable.

## **8. OTHER INFORMATION**

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

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

Bearing in mind that no expenditure was declared to EC, i.e. the NAO did not submit any Request for Funds (including Declaration of expenditure ) to the EC, and the fact that AA was not in a position to carry out an audit of operations, the assurance on the proper functioning of the management and control system is based on the results of the system 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 2015-2017 SOPEES is assessed as „works, but some improvement(s) are needed“. Therefore, it is appropriate to issue an unqualified opinion on the proper functioning of the MCSS.

The assurance on the accounts is based on the results of the audit of accounts as described in section 6.3 of this AAAR. As a result of performed verifications within audit of accounts, we determined discrepancies between data presented in AFR for 2020 (items No 4, 10 and 12) and data and accounting entries in IAs. Taking this into account, we cannot confirm that the Annual Financial Report for the financial/accounting year 2020 for the 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES) is complete, accurate and true in all material aspects and, therefore, it is appropriate to issue a qualified opinion on the reliability of the annual financial reports or statements/annual accounts.

Bearing in mind that previously mentioned items (amounts) were properly entered into evidences and accounting records of Implementing Agencies' (it can be clearly identified in their accounting system) and the fact that amounts have been improperly shown in AFR due to misunderstanding of requirements for costs recognition by NF as well as due to calculation errors occurred by NF during the preparation of AFR, we consider that the impact of the qualification(s) is limited.

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

Not applicable.

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

Not applicable.

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

Not applicable.

## 10.TABLE FOR DECLARED EXPENDITURE AND SAMPLE AUDITS

			A	B		C	D	E		F	G	H=F-G	GI	JH
Fund	Reference (CCI)	Programme	Expenditure declared to the Commission in reference to the year	Expenditure in reference to the financial year audited for the random sample		Total number of units in the population	Number of sampling units for the random sample	Amount and percentage (error rate) of irregular expenditure in random sample		Total projected error rate	Corrections implemented as a result of the total error rate	Residual total error rate	Other expenditure audited	Amount of irregular expenditure in other expenditure sample
				Amount	%			Amount	%	%				
	C(2015) 9051 09/12/2015  CRIS decision No. 2015/037-895	Multi-annual action programme for Montenegro on Employment, Education and Social policies	/	/	/	/	/	/	/	/	/	/	/	/

*\*During 2019 and 2020 no expenditure was declared to EC and therefore audit of transactions/operations was not carried out yet.*