



**MONTENEGRO
AUDIT AUTHORITY**

Nº: 3011-4-06-143

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

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

**FOR THE PERIOD
1st JANUARY 2020 – 31st DECEMBER 2020**

Podgorica, March 2021

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List of abbreviation

AA	Audit Authority of Montenegro
AAAR	Annual Audit Activity Report
AAO	Annual Audit Opinion
AMD	Annual Management Declaration
AMG	Annual Management Guarantee
AWP	Annual Work Plan
CA	Contracting Authority
CAAT	Computer Assisted Auditing Techniques
CB	Control Body
CBC	Cross-border cooperation
CFCU	Central Finance and Contracting Unit
DMS	Directorate for Management Structure
EC	European Commission
EIO	European Integration Office
ETCP	European Territorial Cooperation Programmes
EU	European Union
EUD	Delegation of the European Union
GoA	Group of Auditors
HOS	Head of Operating Structure
IA	Implementing Agency
ICF	Internal Control Framework
IPA II	Instrument for Pre-Accession Assistance II perspective
ISA	International Standards on Auditing
JTS	Joint Technical Secretariat
MCSS	Management, Control and Supervision System
MF	Ministry of Finance
MFE	Ministry of Finance and Economy
MoP	Manual of Procedures
MS	Management Structure
NAO	National Authorising Officer
NAO SO	NAO Support Office
NFD	National Fund Division
NIPAC	National IPA Coordinator
OG MNE	Official Gazette of Montenegro
OS	Operating Structure
OTSC	On-the-spot check
PLCP	Programme level control procedures
WLA	Work Load Analysis

1. INTRODUCTION

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

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

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

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

The Audit Authority is responsible for verifying:

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

The Audit Authority of Montenegro is responsible for the performance of audit tasks in respect of the IPA II 2014-2020 Cross-Border Cooperation Programme "Montenegro-Albania" (C (2014) 9352). It has been assisted by the Group of Auditors (GoA) composed of representatives by the Audit Authority of Montenegro and Audit Agency for the EU - Accredited Assistance Programmes of Albania.

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

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

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

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

In the period June–November 2020 Audit Authority performed system audit of functioning of Management, Control and Supervision System established for implementation of IPA II 2014-2020 CBC Programme "Montenegro-Albania". Also, the follow up of the findings and recommendations given in the course of previous audits was included in the system audit engagement.

Based on level of implementation of IPA II 2014-2020 CBC Programme "Montenegro-Albania", as well as in accordance with adopted Audit Strategy for period 2020-2022 and results of performed risk assessment, the following bodies being part of the management, control and supervision system and key requirements were covered by the system audit:

- **National Fund:** Control environment, Control Activities, Information and communication;
- **CA/CFCU:** Control Environment, Control Activities, Information and communication;
- **CBC Body MNE:** Control Environment, Control Activities, Information and communication, Monitoring of Internal Control Framework;
- **CBC Body ALB:** Control Environment, Control Activities, Information and communication, Monitoring of Internal Control Framework;
- **Control Body:** Control Environment, Risk Management, Control Activities, Information and communication.

During the February 2021 the Audit Authority performed follow-up of the findings and recommendations given in the Final reports of performed system audits in period 2017-2020. Follow-up was performed as separate activity before issuing the AAAR and the AAO.

In the period November 2020 - January 2021 Audit Authority performed audit of operation on the sample of operations for which the expenditures were declared to the European Commission (EC) during 2020.

During the reference year (2020), one Declaration of Expenditure was sent to the European Commission (EC) regarding CBC Programme Montenegro-Albania for the year 2015. As for financial allocation for 2014, 2016, 2017, 2018 and 2019 no expenditures were declared during the year 2020. The population for audit of operations consisted of operations for which the cost recognized by the IA/CFCU has been declared to the EC.

Regarding 2015 allocation **recognised cost has been declared for four operations in the total amount of 962.668,27 €** out of which 818.148,15 € is EU part and 144.520,12 € is from other sources.

Non-statistical sampling was applied for the selection of sample of operations as applicable for small populations. Two operations were selected in the sample amounting to 591.038,30 €. Sampled operations are as follow:

- CFCU/MNE/050 - Disasters do not know borders and
- CFCU/MNE/055 - Augmenting Cooperation from Christian Antiquities Towards

At the end of February and beginning of March 2021 Audit Authority performed audit of the annual financial reports for the year 2020 and assessment of the Management declaration for the respective Programme.

NAO submitted Annual financial report for 2020 on 15th February 2021.

The amount of cost recognised reported by NAO in AFR for 2014 allocation is 618.312,65 € (524.260,96 € EU part, 94.051,69 € other contribution).

Regarding 2015 allocation the amount of cost recognised reported in AFR is 987.297,22 € (839.077,07 € EU part, 148.220,15 € other sources).

As for allocation for the years 2016-2019 amount of cost recognised reported in AFR is 0,00 €. For allocation 2016 and 2017 contracts were signed at the end of 2020 and there were no costs recognised by CFCU while for allocation 2018 and 2019 calls for proposals have not been announced yet.

During the audit AA verified whether the Annual Financial Reports/Financial Statements give a true and fair view as well as the completeness, accuracy and veracity of the annual financial reports or statements and the underlying annual accounts. The audit of accounts in respect of accounting year 2020 has been carried out in the second half of February and beginning of March 2021.

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

The Annual Audit Activity Report covers the Cross-Border Cooperation Action Programme "Montenegro-Albania" for the year 2014 (2014/037-593), the Cross-Border Cooperation Action Programme "Montenegro-Albania" for the years 2015-2017 (2015/038-158, 2016/038-174 and 2017/038-175) and Cross-Border Cooperation Action Programme "Montenegro-Albania" for the years 2018-2020 (2018/041-468 and 2019/041-470) which provide assistance for cross-border cooperation in the thematic area spelled out in the IPA II 2014-2020 CBC Programme "Montenegro – Albania" (C(2014) 9352).

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

- National IPA Coordinators of both countries;
- The National Authorising Officer of Montenegro;
- The Management Structure of Montenegro (National Fund and NAO Support Office);
- The Operating Structure (OS) of Montenegro composed of: Head of the Operating Structure (Montenegrin HOS), Cross-border Cooperation Body (Montenegrin CBC Body) and Contracting Authority (CA/CFCU). The first two are located in the Office for European Integration within the Cabinet of Prime Minister of Montenegro and the Contracting Authority in the Montenegrin Ministry of Finance - Central Finance and Contracting Unit (CFCU);
- the Operating Structure (OS) of Albania composed of: Head of the Operating Structure (AL HOS) and Cross-border Cooperation Body (AL CBC Body) which are located in the Ministry for Europe and Foreign Affairs;
- Control Body (AL CB) placed in the Ministry of Finance and Economy of Albania.

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

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

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

With a view to drawing up an audit opinion, Audit Authority assessed results of audit activities from the audits of management, control and supervision system and audit of operation performed during 2020, result of follow up of the findings and recommendations, results of audit of annual financial reports for 2020 and assessed the consistency of the management declaration with regard to performed audit work.

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

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

2. SUBSTANTIAL CHANGES IN MANAGEMENT AND CONTROL SYSTEMS

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

During 2020, the NAO informed the European Commission and Audit Authority about substantial and planned changes in the system. The following changes occurred in 2020:

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

– 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 N°: 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 N°: 01-817/1).

– National Authorising Officer

On 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.

On 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 N°: 01-3284/1).

– Head of Operating Structure

On the session held on 14th May 2020, the Government of Montenegro gave its consent to the proposal regarding the appointment of Mr Bojan Vujović on the position of the Advisor to Deputy Chief Negotiator – National IPA Coordinator. Mr Vujović also performs the function of Head of Operating Structure for the CBC Programmes.

– Decree on the organisation and manner of work of the state administration

On the session held on 7th December 2020, the Government of Montenegro adopted Decree on the organisation and manner of work of the state administration.

European Commission was informed on this change through the NAO Progress report submitted on 15th January 2021.

New Decree has significantly changed the organization of the state administration. However, the bodies of Management and Operating Structure of the CBC Programme Montenegro-Albania remained the same organisation and functions within newly organised state administration.

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

During 2020, the following changes occurred in the Albanian Operating structure:

– National IPA Coordinator

On the basis of the Decision of Council of Ministers No.422, dated 6th May 2020 “For Structures, Regulations of Functioning and Financial Treatment of Negotiator Group and Tasks of Chief - Negotiator for the Development of Accession Negotiations of Republic of Albania to the European Union”, Mr Zef Mazi has been appointed as the new National IPA Coordinator National IPA Coordinator (NIPAC).

Albanian structure informed EC about this change on 24th June 2020 (Letter N°.11859).

– Head of Operating Structure

According to Internal Order N°.432, date 16th September 2020, Mr Redih Lleshi is appointed as Head of OS for CBC Programme Montenegro-Albania.

– New organisational structure of CFCU

The new organisational structure of CFCU was approved through Prime Minister Order N°.21 on 3rd February 2020 and Prime Minister Order N°.46 on 5th March 2020 and entered into force as of 7th May 2020.

According to new organisational structure function of Control Body is performed within the Sector for financial management of IPA and CBC/ Directorate for Financial Management of IPA and First Level Control for ETCP.

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

The changes that occurred in MCSS in 2020 have been communicated to the European Commission and the Audit Authority. Changes have been assessed by Audit Authority and we can confirm their compliance with Article 7 of Commission Implementing Regulation (EU) N° 447/2014.

Above listed changes do not have an impact on the audit work.

3. CHANGES TO THE AUDIT STRATEGY

According to the Article 12 of Commission Implementing Regulation N° 447/2014 the Audit Authority shall carry out audit in accordance with Audit Strategy prepared on a tri-annual basis.

The Audit Strategy for IPA II 2014-2020 CBC Programme "Montenegro – Albania" was prepared and submitted to the European Commission with a copy to the NAO in November 2019. The Audit Strategy was prepared on a tri-annual basis for period 2020-2022 following the model in Annex G of Montenegro Framework Agreement and approved by Head of Audit Authority after having obtained the opinion of GoA members.

The Audit Strategy has not been changed in the reference period to which the Annual control report relates.

4. SYSTEMS AUDITS

4.1. Details of the bodies that have carried out system audit

The audit body that has carried out system audit is Audit Authority of Montenegro. The Audit Authority of Montenegro, as an independent audit body, was established by the Law on Audit of European Union funds ("Official Gazette of Montenegro" N° 14/12, 54/16, 37/17 and 70/17). Audit Authority of Montenegro is responsible for carrying out the function of the Audit Authority for IPA II 2014-2020 CBC Programme "Montenegro - Albania", in line with the functions and responsibilities set out in Clause 5 of Annex A to the Framework Agreement.

Since the Audit Authority does not have the authorisation to directly carry out its functions in the whole territory covered by CBC Programme "Montenegro – Albania", it is assisted by Group of auditors comprising a representative of Audit Authority of Montenegro and the Audit Agency for the EU Accredited Assistance Programmes of Albania. The Audit Agency for the EU-Accredited Assistance Programmes of Albania is an independent body established by Law No 90/2016 “On the organisation and functioning of the Audit Agency for the EU-Accredited Assistance Programmes in the Republic of Albania”.

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

Audit period	1. Programme (CCI and title)	2. Audit Body	3. Audited Body(ies)	4. Date of the audit	5. Scope of the audit	6. Principal findings and conclusions	7. Problems of systemic character and measures taken	8. Estimated financial impact (if applicable)	9. State of follow-up (closed /or not)
01.01.2020. - 31.12.2020.	IPA II 2014-2020 Cross-Border Cooperation Programme Montenegro-Albania (C (2014) 9352) <i>CRIS No:</i> 2014/037-593 2015/038-158 2016/038-174 2017/038-175 2018/041-468 2019/041-470	Audit Authority of Montenegro + Goa members	1. National Fund 2. CA/CFCU 3. CBC Body MNE + JTS 4. CBC Body ALB 5. Control Body + Follow up in all bodies within MCSS of the IPA II 2014-2020 CBC Programme Montenegro-Albania	June–November 2020	-1(b) Supervision by management of tasks delegated to subordinates – NFD; (d) Staff planning, recruitment, retention, training and appraisal – CFCU, CB, CBC bodies -1(e) Accountability for allocated tasks and responsibilities – NFD, CB, CBC bodies; -2(a) Objective setting – CB; -2(b) Risk identification, assessment and response - CB; -3(a) Selection and development of control activities - NF, CFCU, CBC Bodies, JTS, CB; -4(a) Information to support functioning of internal control - NF, CFCU, CBC Bodies, CB; -4(b) Internal communication - NF, CFCU, CBC Bodies, CB; -4(c) External communication - NF, CFCU, CBC Bodies, CB; -5(a) On-going and specific monitoring – CBC Bodies; -5(b) Assessment, recording and communication of internal control deficiencies – CBC Bodies; - Follow up of open findings from previous audits - all bodies within MCSS	<u><i>Findings related to Montenegro</i></u> 1. Verification of expenditures related to per diem and travel – CFCU; 2. Deficiency in process of issuing AMD – CBC Body MNE <u><i>Findings related to Albania</i></u> 1. Delays in process of expenditures verification – CB; 2. Deficiency in the risk management process – CB; 3. Internal audit planning – CBC Body ALB, CB; 4. Appointment of Publicity Officer – CBC Body ALB; 5. Lack of Contingency Plan – CBC Body ALB Audit conclusion: Category 2 – Works, but some improvements are needed. For more details please refer to the point 4.4 of this report.	Delays in performing the expenditures verification of Albanian project partners by Control Body <i>Measures taken:</i> During the previous period CFCU and CB had intensive communication regarding the verification process and organised several bilateral meetings where the issues related to the verification of expenditure of Albanian project partners were analysed. According to Action Plan mitigation measures include organizing additional meetings between two OSs with more intensive inclusion of the Control Body staff in order to remove all obstacles that have negative impact on their productivity and efficiency as well as organizing the training for CB staff which will be provided by Montenegrin CFCU.	-	<u><i>Montenegro</i></u> OPEN finding no. 1 CLOSED finding no. 2 <u><i>Albania</i></u> OPEN findings no. 1, 4 and 5 CLOSED findings no. 2 and 3 For more details please refer to the point 4.4 of this report

Based on level of implementation of IPA II 2014-2020 CBC Programme "Montenegro-Albania" and all collected information and documentation, as well as in accordance with adopted Audit Strategy for period 2020-2022 and results of performed risk assessment, the following bodies being part of the management, control and supervision system and key requirements were covered by the system audit:

National Fund (NF):

- 1(b) Supervision by management tasks delegated to subordinates
- 1(e) Accountability for allocated tasks and responsibilities
- 3(a) Selection and development of control activities
- 4(a) Information to support functioning of internal control
- 4(b) Internal communication
- 4(c) External communication

Contracting Authority (CA):

- 1(d) Staff planning, recruitment, retention, training and appraisal
- 3(a) Selection and development of control activities
- 4(a) Information to support functioning of internal control
- 4(b) Internal communication
- 4(c) External communication

CBC Body MNE + JTS:

- 1(d) Staff planning, recruitment, retention, training and appraisal
- 1(e) Accountability for allocated tasks and responsibilities
- 3(a) Selection and development of control activities
- 4(a) Information to support functioning of internal control
- 4(b) Internal communication
- 4(c) External communication
- 5(a) On-going and specific monitoring
- 5(b) Assessment, recording and communication of internal control deficiencies

CBC Body ALB:

- 1(d) Staff planning, recruitment, retention, training and appraisal
- 1(e) Accountability for allocated tasks and responsibilities
- 3(a) Selection and development of control activities
- 4(a) Information to support functioning of internal control
- 4(b) Internal communication
- 4(c) External communication
- 5(a) On-going and specific monitoring
- 5(b) Assessment, recording and communication of internal control deficiencies

Control Body (AL CB)

- 1(d) Staff planning, recruitment, retention, training and appraisal
- 1(e) Accountability for allocated tasks and responsibilities
- 2(a) Objective setting

- 2(b) Risk identification, assessment and response
- 3(a) Selection and development of control activities
- 4(a) Information to support functioning of internal control
- 4(b) Internal communication
- 4(c) External communication

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

The system audit encompassed the period from 30th June 2019 to 30th September 2020. The audit was performed in the period from 11th June until 20th November 2020. The Final Audit Report was issued and submitted to Deputy of National Authorising Officer, National IPA Coordinator of Montenegro, National IPA Coordinator of Albania, Head of Operating Structure in Montenegro and Head of Operating Structure in Albania on 28th December 2020.

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

For the purpose of detailed defining of the scope of the audit, during the preparation of Audit Strategy for period 2020-2022 the Audit Authority performed a detailed risk assessment to determine the bodies and ICF area which will be covered by system audit. Additionally, in order to define the key requirements within each area which will be encompassed by the appropriate audit activities in particular body, we performed risk assessment at the level of each requirements during system audit engagement planning.

The Audit Authority's methodology for risk assessment is based on the:

- International Standards on Auditing (and in particular ISA 300, 315, 320, 330, 500),
- Guidance for Member States on Audit Strategy (Programming period 2014-2020), (EGESIF_14-0011-02 final 27/08/2015),
- Guidance for the Commission and Member States on a common methodology for the assessment of management and control systems (EGESIF_14-0010-FINAL 18/12/2014) and
- Guidance on sampling methods for audit authorities, Programming periods 2007-2013 and 2014-2020 (EGESIF_16-0014-01 20/01/2017).

During the preparation of Audit Strategy, risks were identified and taken into account at the programme/structures and authorities level while during system audit engagement planning risk assessment was performed at the level of each key requirements. Specific risk factors have been assessed for each body and ICF area. Each risk factor has been assessed as Low, Medium or High, considering both the significance and likelihood of the risk, and has been evaluated in 5-points scale: the highest risk gets highest points and vice versa. In order to distinguish between the factors with varying importance, the weight have been given to the specific risk factors. After assessment, all bodies are ranked according to the total score.

Based on the results of risk assessment, the following bodies being part of the management, control and supervision system of this Programme were covered by the system audit:

- National Fund (NF);
- Contracting Authority (CA);
- CBC Body MNE + JTS;
- CBC Body ALB and
- Control Body (AL CB).

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

- 1(b) Supervision by management of tasks delegated to subordinates – NFD;
- 1(d) Staff planning, recruitment, retention, training and appraisal – CFCU, CB, CBC Bodies
- 1(e) Accountability for allocated tasks and responsibilities – NFD, CB, CBC Bodies;
- 2(a) Objective setting – CB;
- 2(b) Risk identification, assessment and response – CB;
- 3(a) Selection and development of control activities – NF, CFCU, CBC Bodies, JTS, CB;
- 4(a) Information to support functioning of internal control – NF, CFCU, CBC Bodies, CB;
- 4(b) Internal communication – NF, CFCU, CBC Bodies, CB;
- 4(c) External communication – NF, CFCU, CBC Bodies, CB;
- 5(a) On-going and specific monitoring – CBC Bodies;
- 5(b) Assessment, recording and communication of internal control deficiencies – CBC Bodies.

4.4 Description of the principal findings and conclusions drawn from the audit work for the management and control system and their functioning

The outcome of the audit process is summarized in the Final system audit report that provides findings and recommendations which were identified during the audit process in each body of Management Structure and Operating structures. Findings were categorized according to level of importance to major, intermediate and minor findings. During this audit engagement we identified in total 2 findings related to Montenegrin bodies: 1 major and 1 minor. After follow up of recommendation performed in February 2021 we have had 1 major finding while minor finding has been closed. In respect to Albanian bodies we identified 2 major, 2 intermediate and 1 minor finding during the audit. After follow up 1 major and 1 intermediate finding have been closed. Priority level of 1 major finding has been reduced on intermediate while 1 intermediate and 1 minor finding remained at the same priority level after follow up.

The evaluation of the MCSSs is expressed within one of the four categories as follows:

- Works well; only minor improvements are needed;
- Works, but some improvements are needed;
- Works partially; substantial improvements are needed;
- Essentially does not work.

Conclusions per auditee and audited requirements are given in table below:

IPA Body Audit area	NFD	CA/CFCU	CBC BODY MNE	JTS	CBC BODY ALB	CB ALB
1(b)	1	-	1	-	-	-
1(d)	-	2	1	-	2	2
1(e)	1	-	1	-	1	1
2(a)	-	-	-	-	-	3
2(b)	-	-	-	-	-	3
3(a)	1	2	1	1	2	3
4(a)	1	1	1	-	1	2
4(b)	1	1	1	-	1	1
4(c)	1	1	1	-	2	1
5(a)	-	-	1	-	1	-
5(b)	-	-	1	-	2	-
TOTAL	1	2	1	1	2	3

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

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

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

Further below there is a description of the most important findings (major and intermediate). Recommendations provided for correcting the findings detected as well as information on the measures undertaken for the purpose of eliminating the findings are laid down.

4.4.1 Principal Findings and recommendations related to MCSS

A) Principal Findings and recommendations related to MCSS in Montenegro

1. Verification of expenditures related to the per diem and travel

ICF requirement:

3. Control activities

(a) Selection and development of control activities

Level of priority: Major

Body/-ies concerned by the finding: CFCU

Reviewing the Second Progress Financial Report for contract CFCU/MNE/053 and Third Progress Financial Report for contract CFCU/MNE/055 it has been determined that controllers didn't approve expenditures for the budget line 1. Human Resources (1.3 Per diems for mission travels) in accordance with the Decree on reimbursement of expenses of employees in the public sector ("Official Gazette" N°: 040/16 and 028/18) Articles 6 and 11 (which refer to the manner of fulfilment of a travel order), Articles 8 and 16 (which refer to the method of calculation of travel orders) and Articles 9 and 19 (which refer to the method of approval of a travel order/necessary supporting documents) or in accordance with the Modification of

the provisions related to per diems, under article 6.5 of the Service contract's ToR – Incidental expenditures (which refer to the method of calculation of a travel orders).

Reviewing 29 items of approved costs related to the per diem, we determined that 13 of them had not been approved in a proper manner, which suggests a random error with financial impact of 414,00 €.

Namely, it is evident that some of the Travel orders have not been calculated in acceptable manner, have been approved without necessary supporting documents (Agenda and/or Attendance sheet and/or Report from the mission) and have not been filled in properly (technical errors related to return schedule), thereby violating the aforementioned Decree and Modification of the provisions related to per diems.

The overview of per diem costs which have not been approved in accordance with aforementioned regulation and prescribed procedures is given in the following table:

Contract and Progress report	Reported amount	CFCU accepted amount	Amount of ineligible costs	Issue
CFCU/MNE/053 II Progress Report	972,00 €	954,00 €	378,00 €	Travel orders have not been calculated in acceptable manner, have been approved without necessary supporting documents (Agenda and Attendance sheet and/or Report from the mission) and have not been filled in properly (technical errors related to return schedule).
CFCU/MNE/055 III/ Progress Report	438,00 €	312,00 €	36,00 €	There is no proper evidence that the costs for accommodation for 2 nights were actually incurred.

Additionally, reviewing the Second Progress Financial Report for contract CFCU/MNE/053 and First, Second and Third Progress Financial Reports for contract CFCU/MNE/050 it has been determined that controllers didn't approve expenditures for the budget line 2. Travel costs in accordance with the Decree on reimbursement of expenses of employees in the public sector ("Official Gazette" N°: 040/16 and 028/18).

It is evident that some of the Travel orders have been approved without necessary supporting documents (Agenda and/or Attendance sheet) or based on the Attendance sheet where employees have not been recognised as participants.

Reviewing 23 items of approved costs related to the budget line 2 Travel costs/international travel costs, we determined that 3 of them had not been approved in a proper manner, based on the Article 19 (which refers to the method of approval of a travel order/necessary supporting documents) of aforementioned Decree, which suggests a random error with financial impact of 106,50 €.

Namely, it is evident that costs related to the international travel have been approved without valid evidence, bearing in mind that based on the submitted Attendance sheet employees have not been recognised as participants, thereby violating the aforementioned Decree.

The overview of international travel costs which have not been approved in accordance with aforementioned Decree and prescribed procedures is given in the table below:

Contract and Progress report	Reported amount	CFCU accepted amount	Amount of ineligible costs	Issue
CFCU/MNE/053 II Progress Report	513,15 €	513,15 €	106,50 €	Travel orders have been approved without necessary supporting documents (Agenda and Attendance sheet) or based on the Attendance sheet where employees have not been recognised as participants.

Reviewing 17 items of approved costs related to the budget line 2 Travel costs/local transportation, we determined that 5 of them have not been approved in a proper manner, based on the Article 9 (which refers to the method of approval of a travel order/necessary supporting documents) of aforementioned Decree, which suggests a random error with financial impact of 537,94 €.

Namely, it is evident that costs related to the local transportation have been approved without valid evidence, bearing in mind that based on the submitted Attendance sheet employees have not been recognised as participants, thereby violating the aforementioned Decree.

The overview of local transportation costs which have not been approved in accordance with Decree and prescribed procedures is given in the following table:

Contract and Progress report	Reported amount	CFCU accepted amount	Amount of ineligible costs	Issue
CFCU/MNE/053 II Progress Report	810,80 €	810,80 €	167,30 €	Travel orders have been approved without necessary supporting documents (Agenda and Attendance sheet).
CFCU/MNE/050 I Progress Report	318,78 €	318,78 €	74,36 €	Tables for travel costs have not been calculated in accordance with the submitted Attendance sheets.
CFCU/MNE/050 II Progress Report	863,94 €	863,94 €	233,14 €	Tables for travel costs have not been calculated in accordance with the submitted Attendance sheets.
CFCU/MNE/050 III Progress Report	525,47 €	525,47 €	63,14 €	Tables for travel costs have not been calculated in accordance with the submitted Attendance sheets.

During contradictory procedures controllers submitted evidence related to the budget line 1. Human Resources (1.3 Per diems for mission travels) and budget line 2. Travel costs (international travel costs and local transportations costs).

Based on the afore-mentioned submitted documents we determined that:

- Reviewing 29 items of approved costs related to the per diem, 11 of them had not been approved in a proper manner, which suggests a random error with financial impact of 315,00 €.

Namely, it is evident that some of the Travel orders have not been calculated in acceptable manner (number of approved per diems), have been approved without necessary supporting documents (Agenda and/or Attendance sheet and/or Report from the mission), thereby violating the aforementioned Decree and Modification of the provisions related to per diems.

The overview of per diem costs which have not been approved in accordance with aforementioned regulation and prescribed procedures is given in the following table:

Contract and Progress report	Reported amount	CFCU accepted amount	Amount of ineligible costs	Issue
CFCU/MNE/053 II Progress Report	972,00 €	954,00 €	315,00 €	Travel orders have not been calculated in acceptable manner (number of approved per diems), have been approved without necessary supporting documents (Agenda and Attendance sheet and/or Report from the mission).

- Reviewing 23 items of approved costs related to the budget line 2. Travel costs/international travel costs, we determined that 3 of them had not been approved in a proper manner, which suggests a random error with financial impact of 106,50 €.

Namely, it is evident that costs related to the international travel have been approved without valid evidence, bearing in mind that based on the submitted Attendance sheet employees have not been recognised as participants, thereby violating the aforementioned Decree.

However, during contradictory procedures submitted documents have not been used as adequate audit trail, bearing in mind that it is evident that employees for whom the travel costs have been reported did not sign the original but the scanned version of Attendance sheets.

The overview of international travel costs which have not been approved in accordance with aforementioned Decree and prescribed procedures is given in the table below:

Contract and Progress report	Reported amount	CFCU accepted amount	Amount of ineligible costs	Issue
CFCU/MNE/053 II Progress Report	513,15 €	513,15 €	106,50 €	Travel orders have been approved based on the original version of Attendance sheet.

- Reviewing 17 items of approved costs related to the budget line 2. Travel costs/local transportation, we can confirm that the local transportation costs in the amount of 4.041,24 € have been actually incurred and eligible.

Recommendation:

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

For expenditure stated in this finding, we recommend that controllers conduct additional administrative control in accordance with the rules and ensure adequate audit trail (all supporting documents should be record in the folder per contract, per approved progress reports) since otherwise expenditure is ineligible.

All expenditures for which there is no sufficient audit trail or which have not been filled in a right manner should be proclaimed ineligible.

Implementation deadline: *January, 2021*

Follow up of implementation of recommendation:

Status: *Not implemented*

Level of priority: *Major*

Related to per diem costs, based on the submitted documents during the follow up we determined that Travel order have not been calculated in acceptable manner (submitted Agenda as well as E-mail communication have not been taken into consideration i.e. calculation should be reduced in accordance with the Decree bearing in mind destination and duration of the seminars and works shops.)

Additionally, some of the Attendance sheets have been filled-in in scanned version of the Attendance sheet.

Amount of ineligible per diem costs is 315,00€.

Based on the submitted documentation and auditee's response we can confirm that international travel costs have been approved based on the Attendance sheets which have been filled-in in scanned version of the Attendance sheet.

Amount of ineligible costs is 106,50€.

Implementation of the recommendation will be monitored in the following period.

B) Principal Findings and recommendations related to MCSS in Albania:

1. Delays in process of expenditure verification

ICF requirement:

3. Control activities

(a) Selection and development of control activities

Level of priority: Major

Body/-ies concerned by the finding: CB

During the audit mission in CFCU/AL (Albanian Control Body) it was found that there had been a delay in performing payment verification for Contracts 050,051,052,053,054 and that for Contracts 048,049,055 verifications had not been performed yet.

Referring to the PLCP, point 9.3 Administrative verification it is foreseen that: Operational procedure - Albanian Control Body: Administrative control will be performed in accordance with relevant checklist (Annex 8.1). Deadline for Control Body to submit Transmission Letter with relevant annexes to the Contracting Authority is 15 calendar days from the day of receiving the documents from the Coordinator. It should be noted that in case of request for the additional information, the stated 15 calendar days will be suspended from the moment of the submission of the request of the additional information up until the reception of the complete documentation by the coordinator.

During the audit mission it was found that:

- For contract 050 "Disasters do not know borders", the Financial report had been submitted on 02.12.2019. Letter of submission of the confirmation on eligible expenditure from the Control Body to the CA had been sent on 21.09.2020.

- For contract no 051 "Preserving cultural landscape of Albania and Montenegro", the third Financial report had been submitted on 12.11.2019, desk-based checks had been performed in the period May-July 2020, the third Report approved by Control Body on 20.07.2020.

- For contract no 052 "Local cuisine as tourism offer of cross-border region", the Third Financial report had been received by Control Body in February 2020 for the period 07.04.2019-06.10.2019. The Transmission Letter had been sent to CA on 01.07.2020.

- For Contract 053 “Young Montenegrins and Albanians in Raspberry Crops”, with Albanian beneficiaries: National Professional High School "Ndre Mjeda" and “COSPE - Cooperation for Development of Emerging countries”, the third financial report had been submitted to CFCU/AL from CFCU/MNE on 27.01.2020. Albanian Control Body had requested additional information to the CFCU/MNE on 02.03.2020. CFCU/MNE had sent the supporting documents by we-transfer on 09.3.2020 and had resent them on 30.03.2020. The third report had been approved by Albanian Control Body on 14.04.2020. There is a period of 2 months between the submission of the third financial report from CFCU/MNE to the Albanian Control Body for verification and the request from Albanian Control Body for additional information.

- For contract no 054 “Child friendly tourism in the cross-border region”, Centre "Children today" the Third Financial report had been submitted on 12.11.2019. The interim report 3 had been verified by Control Body, for the First request for additional documents on 24.2.2020, for the Second request for additional documents 27.4.2020. The first set of additional documents had been received on 27.2.2020, the second set of additional documents had been received on 15.5.2020. Letter of updated expenditures had been sent on 5.6.2020. Letter of submission of the confirmation on eligible expenditure from the Control Body to the CA had been sent on 12.6.2020.

- While for the contracts N°.048, N°.049 and N°.055 the Albanian Control Body has not performed any financial checks yet.

Delays in verification controls can lead to delays in payment execution to the beneficiaries.

Recommendation:

Head of Control Body should check the distribution of workload in the Albanian Control Body in order to allocate adequate time and resources to the verification process.

Implementation deadline: *February, 2021*

Follow up of implementation of recommendation:

Status: *Not implemented*

Level of priority: *Intermediate*

For the contract N°.055 the Albanian Control Body has performed financial checks.

For the contracts N°.048 and N°.049 the Control Body AL has requested supporting documents from CFCU MNE in order to proceed with expenditure verification.

Implementation of the recommendation will be monitored in the following period.

2. Deficiency in the risk management process

ICF requirement:

2. Risk management

(b) Risk identification, assessment and response

Level of priority: *Major*

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

During the audit mission, it was found that the Albanian operating structures had not performed risk assessment and no risk register had been provided.

Based on PLCP, article 5 “Risk Management”: “Aiming to protect EC and national financial interest, certain risk management tools and mechanisms must be developed at the level of each IPA Body involved in Programme implementation. Risk Management activities are undertaken in order to ensure timely identification of risks and to define mitigation and corrective measures for risk annulment or reducing the level of its importance and significance

More specifically, the 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. Certain level of “risk acceptance” should be pondered for each particular case in analysis. Risk acceptance is a degree of risk that the management is willing to accept in the pursuit of its objectives. Analysis of risks with defined level of risk acceptance may provide reasonable assurance that the objectives will be achieved.

IPA Bodies can detect potential or occurred risks via different mechanisms, such as:

- daily communication and correspondence, internal and external, self-assessment,
- verifications and controls (at system and transactional level),
- on-the-spot verifications (at system and transactional level).

The risks can be identified by all employees of each IPA Body. For successful mitigation and implementation of corrective measures strong support from superiors and key IPA actors must be ensured, as well as the mechanisms and obligation to inform Head of IPA Body and HOS in this respect.”

These deficiencies could cause noncompliance with the rules and negative results on institutional performance, risk to achieving the programme goals, delays of payments to beneficiaries as well as reputational risks.

In addition, failure to perform risk assessment in the Albanian Operation Structures affects the assurance level of the AMG.

Recommendation:

The Albanian Operating Structures should use the risk management tools and mechanisms in order to ensure timely identification of risks and to define mitigation and corrective measures for risk annulment or reducing the level of its importance and significance.

Implementation deadline: *February, 2021*

Follow up of implementation of recommendation:

Status: *Implemented*

The CB AL has conducted the risk assessment and prepared and approved the risk register. With letter prot N°.19, on 17.01.2021, CB AL has sent all risk related documents to the Albanian Head of Operating Structure.

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

3. Internal audit planning

ICF requirement:

5. Monitoring of internal control framework

(a) On-going and specific monitoring

Level of priority: Intermediate

Body/-ies concerned by the finding: CBC Body and CB

Referring to the Self-Assessment Questionnaire for the AMG 2019 of the Albanian Operating Structures, it was identified that the Internal Audit Directory of the respective body had not performed any audits for the year 2019.

Point 5 (a) of the Framework Agreement IPA II (2014 – 2020) requires:

(a) On-going and specific monitoring,

- ensuring that regular specific monitoring is carried out by internal audit function to provide higher management with independent review of the subordinate systems

Failure to perform internal audits in the Albanian Operation Structures does not provide the higher management with independent review of the subordinate systems resulting in the low assurance level in the AMG.

Recommendation:

Internal Audit Directories in the Ministry of Finance and Economy and Ministry for Europe and Foreign Affairs should plan immediately an internal audit for CBC and Control Bodies in order to give reasonable assurance to Heads of the Operating Structures for the next years AMGs.

Implementation deadline: *April, 2021*

Follow up of implementation of recommendation:

Status: *Implemented*

With letter prot N°.217, on 07.01.2021 the Internal Audit of Ministry of Finance and Economy has initiated system audit in CFCU (CB AL). The internal audit engagement is on-going and internal auditors are planning to include the CB as well.

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

4. Appointment of Publicity Officer

ICF requirement:

3. Control activities

(a) Selection and development of control activities

Level of priority: *Intermediate*

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

During the audit performed at CBC Body it was noted that the Publicity Officer had not been replaced after the resignation of the previous officer.

According to the Framework Agreement IPA II Article 23-Information, publicity and visibility it is stated that “In case of indirect management by the IPA II beneficiary, the operating structures shall be responsible for publishing information on recipients of IPA II assistance...”

Lack of dedicated publicity and visibility officer put at risk the fulfilment of the requirement of the Framework Agreement as well as the transparency on the use of EU funds.

Recommendation:

We recommend that Head of CBC Body appoint Publicity Officer as soon as possible.

Implementation deadline: *April, 2021*

Follow up of implementation of recommendation:

Status: *Not implemented*

Level of priority: *Intermediate*

Publicity Officer has not been appointed yet.

Implementation of the recommendation will be monitored in the following period.

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

During the system audit, a delay in performing expenditures verification of Albanian project partners by Control Body was identified. During 2020 CB started with verification process and verified 17 reports out of 34 by February 2021. 17 reports have not been verified yet (11 reports have been previously controlled and verified by Montenegrin CFCU, but CB did not re-perform verification).

During the previous period CFCU and CB had intensive communication regarding the verification process and organised several bilateral meetings where the issues related to the verification of expenditure of Albanian project partners were analysed. According to Action Plan, mitigation measures include organizing additional meetings between two OSs with more intensive inclusion of the Control Body as well as organizing the training for CB staff which will be provided by Montenegrin CFCU.

Regarding the finding *Audit trail for travel costs* identified during the system audit 2019, the process of verification of travel cost was in the scope of the audit in 2020 as well. Reviewing 23 items of approved costs related to the budget line 2. Travel costs/international travel costs, we determined that 3 of them had not been approved in a proper manner, which suggests a random error with financial impact of 106,50 €.

As for the budget line 2. Travel costs/local transportation, we reviewed 17 items of approved costs and determined that all these costs had been actually incurred and eligible and approved according to procedures and regulation.

Based on this, we can conclude that finding do not have systemic character anymore. CFCU will make additional check by the end of implementation of contracts, i.e. at the latest by final reports for each contract and make final decision on eligibility of expenditure.

4.5 Description of specific deficiencies related to the management of financial instruments

Not applicable.

4.6 Level of assurance obtained following the system audit (low/average/high) and jurisdiction

The evaluation of the MCSSs is expressed within one of the four categories as follows:

- Works well; only minor improvements are needed;
- Works, but some improvements are needed;
- Works partially; substantial improvements are needed;
- Essentially does not work.

According to the results of the system audit conducted during 2020 MCSS established for implementation of the IPA II 2014-2020 CBC Programme "Montenegro-Albania" has been classified in Category 2 that is it 'works, but some improvements are needed'. Therefore, the level of assurance obtained from the system is average.

5. AUDITS OF SAMPLES OF TRANSACTIONS

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

The audit of sample of transaction in the framework of IPA II 2014-2020 CBC Programme "Montenegro-Albania" was conducted by the Audit Authority of Montenegro according to Audit Strategy 2020-2022. In conducting the audit AA was assisted by the Group of Auditors composed of representatives of the Audit Authority of Montenegro who performed the audit in territory of Montenegro and representatives of the Audit Agency for the EU - Accredited Assistance Programmes of Albania who performed the audit in territory of Albania in accordance with Rules of procedures of Group of Auditors.

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

The sampling was performed by the Audit Authority in accordance with the method described in the Audit Strategy 2020-2022 adopted for the Programme and in accordance with international auditing standards and having regard to the EGESIF 16-0014-01 Guidance on sampling methods for audit authorities.

Bearing in mind small number of operations in accounting year 2020 the sample was selected applying non-statistical sampling method by random selection of items. Sample size has been determined considering AA overall assessment of the MCSS and EGESIF 16-0014-01 guidance regarding minimal sample size when applying non-statistical sampling.

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

Not applicable bearing in mind that AA used non-statistical method.

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

The audit of operations was performed on the sample of operations for which the expenditures were declared to the European Commission during 2020. One Declaration of Expenditure was sent to the European Commission regarding CBC Programme Montenegro-Albania for the year 2015 in total amount of 962.668,27 € (818.148,15 € EU part and 144.520,12 € private co-financing). As for financial allocation for 2014, no Request for Funds was submitted to EC and no expenditures were declared during the year 2020. Regarding financial allocation for 2016 and 2017 contracts were signed at the end of 2020 while for allocation for 2018 and 2019 call for proposal has not been published yet.

No negative items were present in the amounts declared to the Commission during 2020.

The population considered for drawing up the sample for the audit of operations consisted of 4 operations including 962.668,27 € of total cost recognised amounts included in CA accounting records and declared to the Commission in the financial year 2020. Population is given in table below:

Contract	Name of the Contract	Contractor	Contracted			Open pre-financing	Cost recognised		
			EU part	Private co-financing	Total		EU part	Private co-financing	Total
FA 2015 CRIS 2015(2015/038-158)									
CFCU/MNE/048	The Feminine side of Quality	Municipality of Ulcinj	284.357,81	50.180,79	334.538,60	61.816,51	149.091,99	26.310,34	175.402,33
CFCU/MNE/049	Green Lands	Municipality of Berane	399.215,22	70.601,70	469.816,92	-	166.738,85	29.488,79	196.227,64
CFCU/MNE/050	Disasters do not know borders	FORS Montenegro	410.900,00	72.638,35	483.538,35	57.725,61	249.112,95	44.037,86	293.150,81
CFCU/MNE/055	Augmenting Cooperation from Christian Antiquities Towards	Diocese of Budimlje and Nikšić	491.985,98	86.821,06	578.807,04	-	253.204,36	44.683,13	297.887,49
Total			1.586.459,01	280.241,90	1.866.700,91	119.542,12	818.148,15	144.520,12	962.668,27

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

Not applicable.

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

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

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

Bearing in mind small number of operation (4 operations) in accounting year 2020 the sample was selected applying non-statistical sampling method by random selection of items. Sample size has been determined considering AA overall assessment of the MCSS, Commission statement regarding minimal sample size when applying non-statistical sampling, and risks identified in previous system audit engagements.

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

Two operations in overall amount of 591.038,30 € have been selected in the sample using equal probability selection which presents 50% of the total number of units/operations (population) and 61.40% of total amount of declared costs. Considering the level of assurance provided by the system audits and risks identified the AA considers that the drawn sample is sufficient to draw conclusions and an audit opinion.

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

See point 10. of the Report.

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

The overall audit objective is to verify the legality and regularity of declared expenditures, in accordance with AA competencies established by the Law on Audit of EU Funds and functions and the responsibilities set out in Annex A of the Framework Agreement concluded between the Government of Montenegro and the European Commission.

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

Operation/Contract	Total expenditure declared (EUR)	Union contribution (EUR)	Private co-financing (EUR)	Expenditure audited (EUR)	Audited / Declared expenditure (%)
FA 2015					
CFCU/MNE/050 Disasters do not know borders CRIS 2015 (2015/038-158)	293.150,81	249.112,95	44.037,86	293.150,81	100%
CFCU/MNE/055 Augmenting Cooperation – from Christian Antiquities Towards Enhances Tourism CRIS 2015 (2015/038-158)	297.887,49	253.204,36	44.683,13	297.887,49	100%
TOTAL	591.038,30	502.317,31	88.730,99	591.038,30	100%

Following bodies were covered during the audit:

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

Audit Authority carried out on-the-spot checks at the premises of Grant Beneficiaries, i.e. Foundation for the Development of Northern Montenegro (FORS), Ministry of Internal Affairs – Directorate for Emergency Situations, Rescue services from Podgorica and Institute of Hydrometeorology and Seismology of Montenegro from Contract CFCU/MNE/050 and Diocese of Budimlje and Nikšić and Javna ustanova Polimski Muzej Berane from Contract CFCU/MNE/055.

The Albanian GoA members carried out only desk-based checks. However, the project partners have been contacted via E-mail and by phone for additional information.

During the audit, we have identified and documented audit findings. The categories which we use to classify our findings are as follows:

- Findings for which action should be taken to ensure full compliance, but have no financial consequences-System findings
- Findings which have financial impact - Transaction findings

System findings:

1. Expenditure verification not performed by Control Body of Albania

Responsible body: CB

Control Body of Albania has not performed the first level control of the expenditure on the amount of 11.080,18€. This expenditure corresponds to staff cost of Archaeology Excavation and Works Coordinator, Institute of Archaeology, Centre for Albanian Studies, for the contract CFCU/MNE/055 “Augmenting Cooperation – from Christian Antiquities Towards Enhances Tourism”.

From the beginning of the implementation of the programme until November 2019, CFCU of MNE has verified and approved the expenditure of the project partners from Albania. Based on the finding identified during the system audit (for reference finding No:1/2019 “Functioning of Operating Structure”), CFCU of MNE has transferred the documentation for re-performance of expenditure verification of the project partners from Albania. In this regard for the contract CFCU/MNE/055 for the reporting period 1, 2 and 3 the CFCU of MNE has sent a list of expenditure to the CB of Albania to certify only costs of Partner Coordinator and Financial Officer without including the staff cost of the Archaeology Excavation and Works Coordinator.

Level of priority: *Major*

Recommendation:

The CFCU of MNE should send to Control Body of Albania all the supporting documents to perform control of the cost of the Archaeology Excavation and Works Coordinator, in order to verify the expenditure declared relates to the eligible period.

2. Insufficient monitoring of the activities of the contract by CB

Responsible body: CB

During audit process for the contract 055 “Augmenting Cooperation – from Christina Antiquities towards Enhanced Tourism” it was noted insufficiency in the controls relating to outputs performed by Albanian CB. For all outputs of the audit period, executed by the experts, it is not clear if they are fulfilled as foreseen by the contract because the column “Description of the tasks” in the time – sheets does not indicate the activities performed.

In the Annex 8.4 “Financial reporting and eligibility of expenditure by budget headings” it is foreseen that the monthly timesheet proving the actual time worked on the project has to be provided for each project team member, it must be properly filled out with a description of the tasks carried out within the project and duly signed (and stamped), both by the team member and the responsible person in the employer institution.

Referring to the MoP of CFCU, Section C, point 4.4.4 “First Level Control Sector” it is foreseen that:

- To verify the reality of the project, including physical progress of the goods/ services/ works purchased and compliance with the terms and the conditions of the contracts and with the output and result indicators – according to relevant procedures in force;
- To verify adequacy of supporting documents and of the existence of an adequate audit trail - the correctness of the invoiced goods, services and works regarding the eligibility and the evidence of the real spending of funds (the invoices contain eligible expenditure included in the contract which correspond to the objectives of the contract);

Based on the above, the lack of controls on the time sheets puts at risk the verification performed by CB of Albania on the expenditure declared, whether it has actually been incurred in accordance with applicable

rules, the services have been delivered in accordance with the signed contract and the requests for payments submitted by the beneficiary are correct.

Level of priority: *Intermediate*

Recommendation:

Control Body is recommended to verify the activities as required in the contract to guarantee effective implementation of the action.

Transaction findings

1. Ineligible expenditure for funding in the period covered by the II Interim Report and ineligible expenditures in respect to the activity 5.7.15 - Insurance for participants for trainings and exercise in Albania

Project name and number: *“Disasters do not know borders”, No: CFCU/MNE/050*

Project partner: *Prefecture of Shkodra*

Finding: During audit process for the contract 050 “Disasters do not know borders”, it is noticed that for the following expenditure there are either missing supporting documents or they cannot be included as eligible expenditures in the period covered by the II Interim Report (October 2018 – April 2019).

Referring to the available documentation, it was found that:

1. Project partner has requested for reimbursement expenditure which is paid outside of the reporting period Oct 2018 – April 2019. For the activity 1.3.1.2 - Per diems for missions/travel of the Project team ALB for travel to MNE and 2.1.2 – Travels of the Project team Albania, results that the activity performed on 19.03.2019 (project partner meeting in MNE) in the amount of ALL 8.230,00 (or € 66,40, using the exchange rate of 123,95) is paid on 21.05.2019 via Credins Bank.

This amount includes:

- 25,00€ reported for the activity 1.3.1.2, per diem for the Albanian project team,
- 15,00€ Car insurance (not requested for reimbursement)
- 26,40€ reported for the activity 2.1.2, for travel expenses (fuel)

Referring to the financing agreement between the Government of Montenegro and the European Commission for the cross-border cooperation Montenegro - Albania 2014–2020, at the Annex II General Condition, Article 10 “Bank accounts, accounting systems, and cost recognized”, point 5 is stated:

“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 that is the Contracting Authority under local contracts.”

Failure to the above-mentioned conditions, the costs cannot be recognised. In this respect, the amount of 51,40€ requested by the project partner for reimbursement is ineligible for the reporting period.

Furthermore, the PLCP, as the main guide for the implementation of the IPA II CBC Programme Montenegro - Albania 2014–2020, does not clearly specify which expenditure should be included in the Interim Financial Report within a given period.

2. For the activity 5.7.15 - Insurance for participants for trainings and exercise in Albania (15 persons), no supporting documents are provided for the declared expenditure of 56,94€ such as health insurance

policy, receipt or payment document. On this regard this amount is ineligible for funding under the programme.

Based on the above situation, the amount of 108,34€ is not justified and do not comply with the requirements of sound financial management.

Based on the Article 14.7 of the General Condition of the Contract, together with the direct cost, is calculated also the indirect cost (7% of direct cost):

Total ineligible expenditure: 108,34€

7% calculated and reimbursed to beneficiary: 7,59€

Total Ineligible cost 115,93€

Total ineligible expenditure: 115,93€ (EU part: 98,52€; other sources: 17,41€).

Level of priority: Major

Recommendation:

Based on the above, the amount of 51,40€ and 3,60€ of related indirect costs is considered ineligible for funding in the period covered by the II Interim Report (October 2018 – April 2019) and should be reimbursed in the next period.

A financial correction in the amount of 56,94€ for the activity 5.7.15 - Insurance for participants for trainings and exercise in Albania and 3,99€ of related indirect costs is proposed.

In addition, the Programme Management and Operating structures are recommended to revise the Programme level control procedures for the IPA II CBC programmes by clearly specifying which expenditure should be included in the Interim Financial Report within a given period.

We recommend recovery of identified ineligible expenditure in the overall amount of 115,93€.

2. Ineligible Human Resources expenditure

Project name and number: “Augmenting Cooperation – from Christina Antiquities Towards Enhanced Tourism”, No: CFCU/MNE/055

Project partner: Albania Community Assist, Institute of Archaeology, Centre for Albanian Studies

Finding: Referring to the physical files received by CB of Albania for the contract 055 “Augmenting Cooperation – from Christina Antiquities towards Enhanced Tourism” it is noticed that some national holidays are paid without prior official approval from the employer.

Referring to the PLCP, Annex 8.4 “Financial reporting and Eligibility of expenditure by budget headings” it is foreseen that monthly timesheet proving the actual time worked on the project:

“has to be provided for each project team member; it must be properly filled out with a description of the tasks carried out within the project and duly signed (and stamped), both by the team member and the responsible person in the employer institution. Paid leave such as national holidays and vacation must be reported regularly through total number of working hours and clearly specified in the column “description of the task” in the timesheet. Note: If the person is working on national holiday or during the weekend without prior official approval from employer i.e. organization, it cannot be considered as eligible cost.”

During the audit of time sheets and controls performed by the CB of Albania, it was found that there is no official approval from employer for the payment of the national holidays and CB did not detect the lack of supporting documents. As a result, Excavations and Archaeological Coordinator was paid on national

holiday, on 19 October 2018 for 8 hours in the amount of 70,34€ and on 15 June 2018 for 6 hours in the amount of 57,20€, for a total of 127,54€ which is considered ineligible cost.

In addition, according to article 14.7 of General Conditions of the contract the indirect cost related to this amount is 8,92€.

Total ineligible expenditure: 136,46€ (EU part: 115,99€; other sources: 20,47€)

Level of priority: Major

Recommendation:

A financial correction of 127,54€ for Human Resources expenditure and 8,92€ of indirect cost is proposed.

We recommend recovery of identified ineligible expenditure in the overall amount of 136,46€.

3. Ineligible expenditure related to point 4.3 Consumables-office

Project name and number: “Augmenting Cooperation – from Christina Antiquities Towards Enhanced Tourism”, No: CFCU/MNE/055

Project partner: Albania Community Assist, Institute of Archaeology, Centre for Albanian Studies

Finding: For the Contract No. 055 “Augmenting Cooperation-from Christian Antiquates Towards Enhanced Tourism” it was found that in the Second Quarterly Report for the period 10.10.2018-09.04.2019 and Third Quarterly Report for the period 10.04.2019-09.07.2019, expenditure in the amount of € 246,433 declared under budget line point 4.3 Consumables-office (subtotal local office) is not foreseen in the budget of the grant contract. The products corresponding to this amount are biscuits, juices, energy drinks etc. purchased by the beneficiary with the following invoices:

Invoice No: 499 date 15.11.2018;

Tax coupon date 09.01.2019;

Invoice No:38 date 17.01.2019;

Invoice No: 2779 date 27.02.2019;

Invoice No: 2827 date 21.03.2019;

Invoice No: 2846 date 27.03.2019;

Invoice No: 537 date 27.03.2019.

In Annex III of the grant contract “Justification of the Budget for the Action” point 4.3 “Consumables-office (subtotal local office)”, the expenditure foreseen under this budget line is related to office paper, small office supplies, printer cartridges, binders etc. In this context, the expenditure related to the invoices listed above is not related with the office supplies foreseen by point 4.3 of the contract budgets.

Based on the above a financial correction of 246,433€ for Consumables-office expenditures is proposed.

In addition, according to article 14.7 of General Conditions of the contract the indirect cost related to this amount is 17,25€.

Total ineligible expenditure: 262,68€ (EU part: 224,13€; other sources: 38,55€)

Level of priority: Major

Recommendation:

Based on the above, a financial correction of 246,43€ for Consumables-office expenditure and 17,25€ of indirect cost is proposed.

We recommend recovery of identified ineligible expenditure in the overall amount of 262,68€.

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.

During the audit of operation in 2020 we identified 3 findings with financial impact in total amount of 515,06 € (0,087%). As these 3 errors are treated as random errors, it is projected (extrapolated) to the whole population (962.668,27 €), and the projected (extrapolated) error is 837,52 €.

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.

Based on the audit work performed we have obtained reasonable assurance that the expenditure declared in the amount of 962.668,37€ in the period 01/01/2020 – 31/12/2020 is in all material aspects, legal and regular, except expenditures described in the point 5.8. Total projected error on the overall population is 837,52€ (0,087%) and it is below the materiality threshold of 19.253,37€ (2%).

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.

During the audit of operations 3 errors in the total amount of 515,06 € (EU part 437,78 €, other sources 77,28€) were identified. However, Management structure/Operating structure did not implement financial correction before submitting financial statements to the Commission i.e. annual accounts have not been corrected for the amounts of ineligible costs determined during the audit of operation.

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

Due to the fact that the financial correction is not implemented in the current financial year, residual total error rate is the same as projected (extrapolated) error rate 837,52€ (0,087%).

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. There were no findings with financial impact identified during audit of operation performed for the year 2019.

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. Findings identified are not systemic in nature.

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

Not applicable.

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

Not applicable.

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

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

Based on the audit work performed we have obtained reasonable assurance that the expenditure declared in the amount of 962.668,37€ in the period 01/01/2020 – 31/12/2020 is in all material aspects, legal and regular, except expenditures described in the point 5.8.

On the basis of result of the audit of operation and considering that the total projected error rate is below the materiality level of 2%, Audit Authority concluded that assessment of MCSS given during system audit which is in Category 2 ('works, but improvements are needed') shall remain same.

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

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

The audit of the annual financial reports or statements/annual account in the framework of IPA II 2014-2020 CBC Programme "Montenegro-Albania" was conducted by the Audit Authority of Montenegro according to Audit Strategy 2020-2022.

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

Audit of accounts was carried out in compliance with the Audit Authority Manual of procedures, Programme Audit Strategy 2020-2022, Framework Agreement and relevant Financing Agreements.

The NAO submitted to the Commission, in accordance with Article 59(2) of the Framework Agreement, the Annual Financial Reports for Action and CBC Programmes for Montenegro, managed under indirect management on 15th February 2021 including the CBC Programmes “Montenegro-Albania” for years 2014-2019.

The amounts declared in the Annual Financial Report for 2020 is presented in the table below:

Programme Reference	Financing Agreement contract number	Total Amount Disbursed		Total Costs Recognised		Total Open Pre-financing		Bank Balances (EU contribution)	Forecast disbursements
		EU contribution	Other sources	EU contribution	Other sources	EU contribution	Other sources		Next 12 months
CBC MNE-ALB 2014	2014/037-593	1.049.326,52	0,00	524.260,96	94.051,69	525.065,56	0,00	116.591,85	116.591,85
CBC MNE-ALB 2015	2015/ 038-158	1.427.813,12	0,00	839.077,07	148.220,15	588.736,05	0,00	158.645,89	158.645,89
CBC MNE-ALB 2016	2016/038-174	954.546,08	0,00	0,00	0,00	954.546,08	0,00	405.453,92	0,00
CBC MNE-ALB 2017	2017/ 038-175	535.857,62	0,00	0,00	0,00	535.857,62	0,00	416.142,38	0,00
CBC MNE-ALB 2018	2018/041-468	0,00	0,00	0,00	0,00	0,00	0,00	0,00	1.360.000,00
CBC MNE-ALB 2019	2019/041-470	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00

During the audit AA took into consideration the results both of the system audits and of the audit of operations. Moreover, in accordance with the EGESIF Guidance 15-0016-04 of 03/12/2018, the AA performed additional verifications on the accounts in order to provide an opinion whether the accounts give a true and fair view. AA also checked whether the accounts had been prepared in accordance with the templates set out in Annex 4a and 4b of Financing Agreement.

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

- (a) the total amounts contracted and addendums signed, invoices received, payments made and recoveries requested, amounts disbursed, total costs recognised, amounts of open pre-financing and the relevant percentages based on appropriate total amounts submitted to the Commission in accordance with the Annex IV of the Financing Agreements correspond to the amounts entered in the accounting systems of the National Fund Division (NF) and are based on verifications and relevant supporting documents (requests, checklists, approvals) of the Implementing Agency/CFCU, HOS and National Fund Division (NF);
- (b) the total amounts submitted in the Annual Financial Reports correspond to the amounts in the electronic database for each contract in relation to the contract reference, initial contract amount, amended contract amount, contract implementation start and end date, amount paid and amount of recoveries under

the contract, amount related to total pre-financing paid and pre-financing cleared, total costs accepted, invoice date, invoice initial amount and invoice eligible amount accepted;

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

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

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

See reconciliation table below:

Programme/Grant beneficiary				NF Accounting System														IA/CFCU							
Name of allocation	Current contract value/ EU part	Current contract value/ Other sources	Source	Payment Request by Grant beneficiary	Rff from IA	Record in NF Acc system	Bridge Financing	Record in NF Acc system	Rffs to EC	Record in NF Acc system	Bank statement NF-NF-IPA Acc	Record in NF Acc system	Bank statement State Treasury Main Acc	Record in NF Acc system	Financial Forecast	Cost recognised EU part	Calculation by AA (FROS and Audit Operation Report)	Payment Order	Bank statement	Record in CFCU Acc system	Pre-financing paid	Pre-financing cleared	Open pre-financing	Calculation by AA	Recovery
CBC MINE-AL 2014	1.165.938,37	209.126,13	Pie-financing	1.049.326,52	1.049.326,52	1.049.326,52	246.304,27	246.304,27	1.049.326,52	1.049.326,52	1.049.326,52	1.049.326,52	1.049.326,52	1.049.326,52	116.591,85	524.260,96	524.260,97	1.049.326,52	1.049.326,52	1.049.326,52	1.049.326,52	524.260,96	525.065,56	525.065,55	0,00
			Further pre-financing																						
CBC MINE-AL 2015	1.586.459,01	280.341,90	Pie-financing	1.427.813,12	1.427.813,12	1.427.813,12	329.345,40	329.345,40	1.427.813,12	1.427.813,12	1.427.813,12	1.427.813,12	1.427.813,12	1.427.813,12	158.645,89	839.077,07	838.635,44	1.427.813,12	1.427.813,12	1.427.813,12	1.427.813,12	839.077,07	588.736,05	589.177,68	441,62
			Further pre-financing																						
CBC MINE-AL 2016	1.605.352,90	283.969,74	Pie-financing	954.546,08	954.546,08	954.546,08	0,00	0,00	954.546,08	954.546,08	954.546,08	954.546,08	954.546,08	954.546,08	0,00	0,00	0,00	954.546,08	954.546,08	954.546,08	954.546,08	0,00	954.546,08	954.546,08	0,00
CBC MINE-AL 2017	1.051.257,44	185.516,01	Pie-financing	535.857,62	535.857,62	535.857,62	0,00	0,00	1.243.488,61	1.243.488,61	1.243.488,61	1.243.488,61	535.857,62	535.857,62	0,00	0,00	0,00	535.857,62	535.857,62	535.857,62	535.857,62	0,00	535.857,62	535.857,62	0,00

During the audit, no findings which have an influence on the completeness, accuracy and veracity of the amount reported in annual accounts have been identified for CBC Programme MNE-ALB for the years 2014, 2016, 2017, 2018 and 2019.

As for CBC programme MNE-ALB for the year 2015, we have identified and documented the following audit findings:

Finding N° 1: *Influence on the completeness, accuracy and veracity of the Annual Financial Reports*

Reviewing the Annual Financial Report for 2020 it has been determined that financial corrections identified during Audit of operation have not been taken into account which is not in accordance with the Framework Agreement, Article 36 - Examination and acceptance of accounts procedures.

Namely, in the Final Audit of Operation Report N°: 3011-2-06-82, from 5th February 2021, it is concluded that costs related to the activity 5.7.15 - Insurance for participants for trainings and exercise in Albania, Human Resources expenditure and point 4.3 Consumables-office are ineligible in total amount of 515,07€ (EU part: 438,64€; other sources: 76,43€) for CBC Programme “Montenegro-Albania” for the year 2015.

On the basis of received Final Audit of Operation Report the IA/CFCU didn't issue Updated Written Approval Letter with clarification and/or Notification letter to inform Coordinators of the projects/beneficiaries about modification of the total cost recognised in line with the written procedures in the MoP (version 2.0) Chapter Financial Management (4. Flow of funds – 4.5 – Modalities concerning cost recognised). Bearing in mind above mentioned it is evident that in the IA Main entries and on the basis of SAP print-out, source of documents has not been recorded.

CFCU didn't send to the Coordinators of the projects/beneficiaries Letter of recoveries of fund and this is not evident in the SAP print-out which is not in accordance with the written procedures prescribed in the MoP (version 2.0)– Chapter Financial Management (7. Recovery of funds) and Chapter Accounting (9. IA Main entries).

Reconciliation of outstanding receivables and recoveries between the IA and the Contractor's ledgers has to be made once a year at the end of financial year for the previous year in line with the written procedures prescribed in the MoP (version 2.0) Chapter Accounting (8.2 – Reconciliation between IA and Contractor's ledger). These procedures have not been respected.

Additionally, it is evident that NF didn't take into account ineligible expenditure prescribed in the Final Audit Operation Report during issuing Annual Financial Report for 2020. Annual Financial Report for the CBC Programme MNE-ALB for the year 2015 has not been corrected (column: Cost recognised and Open pre-financing) for the amount of 515,07€ (EU part: 438,64€; other sources: 76,43€) which was determined as ineligible costs during the audit of operation.

Additionally, Checklists for Annual Financial Report have been filled in based on the SAP printout data and parts of the documents (IA Monthly Progress Report on Contracts and Payments and planned cost recognized). However hard copy version of Written Approval Letter as well as Contract Payments Overview Sheet-FROS have not been taken into account.

Recommendation:

We recommend to the CFCU to issue Notification letter to the relevant coordinators/beneficiaries and/or Updated Written Approval Letters with modification of the total cost recognised and insert relevant documents into the SAP.

We recommend to the NF to take into account ineligible expenditure prescribed in the Final Audit Operation Report during issuing Annual Financial Report. Financial correction must be included in next declaration/financial reports. Additionally, Checklist for Annual Financial Report should be checked/filled based on the all relevant documents/audit trails.

All written procedures prescribed in the MoP (version 2.0) related to the Chapters Financial Management and Accounting should be respected.

Level of priority: *Major*

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

Implementation deadline: - *Immediately for CFCU,*
- *Next Declaration/ Financial Report for NF*

Finding N° 2: *Discrepancy in the data entered in the SAP and the CFCU supporting documentation*

Reviewing the Annual Financial Report for 2020 as well as Year-end cut off Report for 2020 discrepancy related to the presented cost recognised has been determined.

Namely, it is evident that there is a discrepancy between data presented in the Annex 7.2 - IA Monthly Progress Report on Contracts and Payments and planned cost recognized and SAP print-out with data presented in the Annex 9 - Contract Payments Overview Sheet-FROS and Written Approval Letter.

For CBC Programme “Montenegro-Albania-2015”, discrepancy is evident for the Contract CFCU/MNE/050 in the amount of 3,00€ (EU part).

CFCU approved amount of 259.336,57€ (EU part) by Written Approval Letter and Contract Payments Overview Sheet-FROS. However, in the IA Monthly Progress Report on Contracts and Payments and planned cost recognized and SAP print-out CFCU entered amount of 259.339,57€ (EU part).

In respect to the detected error we concluded that Annual Financial Report has not been corrected in amount of 3,00€ (EU part – Column: Cost recognised and Open pre-financing).

Additionally, hard copy version of Written Approval Letter as well as Contract Payments Overview Sheet-FROS have not been taken into account during process of verification and approval of IA Progress report on contracts and payments by NF as well as preparation of Year-cut off report and Annual Financial Report.

Recommendation:

We recommend to the CFCU to update data of approved cost (in amount of 3,00€) in the IA Monthly Progress Report on Contracts and Payments and planned cost recognized and SAP print-out in accordance with the data presented into the Annex 9 - Contract Payments Overview Sheet-FROS and Written Approval Letter.

We recommend to the NF to take into account error made by CFCU in amount of 3,00€ during issuing Annual Financial Report. Financial correction must be included in next declaration/financial reports.

Additionally, we recommend to the NF to check all supporting documents during the process of issuing Annual Financial Report. Namely, IA Progress report on contracts and payments should be verified and approved based on all relevant documents/audit trails (Contract Payments Overview Sheet-FROS and Written Approval Letter).

Level of priority: *Major*

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

Implementation deadline: - *Immediately for CFCU,*
- *Next Declaration/ Financial Report for NF,*
- *Next verification of IA Progress report on contract and payment for NF*

During the audit we also determined that Annual Financial Report for 2020 was prepared using appropriate form of the Annex IV for the CBC Programmes which includes the Column 5 – Contracted and that it has been separated from the other Action Programmes (CAP, SOPEES), thus the recommendation from previous year’ audit of accounts has been implemented.

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

The conclusion of the audit is based on the analysis of the procedure in place, information and documents collected and meeting conducted in the Directorate for Finance and Contracting of the EU Assistance Funds (CFCU) and Directorate for Management Structure/ National Fund Division (NF), as well as the tests performed in the course of the audit by applying the Checklist for the audit areas.

The Audit Authority also considered the results from the system audit regarding the design and operating effectiveness of the management and control (MCSS) in the process of preparing and submitting of the Annual Financial Reports and the results of the audit on operations.

System audit has not resulted in financial corrections regarding the reference period.

The audit of operation has resulted in financial corrections regarding the reference period. Namely, in the Final Audit of Operation Report No: 3011-2-06-82, from 5th February 2021, it is concluded that costs in total amount of 515,07€ (EU part: 438,64€; other sources: 76,43€) for CBC Programme “Montenegro-Albania” for the year 2015 are ineligible. Annual Financial Report (column: Cost recognised and Open pre-financing) has not been corrected for the above-mentioned amount. Therefore, this financial correction must be included in next declaration/financial reports.

Additionally, during the audit of accounts we have determined that the amount 3 € (EU part) higher than CFCU actually approved as cost recognised is entered into accounting system. Annual Financial Report for CBC Programme “Montenegro-Albania” for the year 2015 should be corrected for detected error (column: Cost recognised and Open pre-financing).

Based on the audit work performed we have obtained reasonable assurance on the completeness, accuracy and veracity of the amounts declared in the accounts submitted to the Commission for the accounting year 2020, except amounts of Cost recognised and Open pre-financing indicated in finding N°1 and N°2 in the Part 6.2 of this Report related to the CBC Programme “Montenegro-Albania” for the year 2015. Correction which should be made is below materiality level of 2 % (19.745,94€ for Cost recognised and 11.774,72€ for Open pre-financing).

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

No problems considered to be systemic in nature were identified.

7. FOLLOW-UP OF PREVIOUS YEARS' AUDIT ACTIVITY

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

During system audit performed in 2020, Audit Authority carried out follow up of implementation of recommendation related to open findings from the previous years. Results of follow up were presented in Final System audit report.

Additionally, during February 2021 we performed follow up as separate activity before issuing the AAAR and AAO. Follow up covered the findings and recommendations given during system audit performed in 2020 as well as open findings from previous years' system audits and audit of operation.

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

- On 04th February 2021 we sent Tables with the summary of open findings and recommendations from audits performed to all IPA bodies in Montenegro and Albania with request to include into the Tables their Management response on the status of the individual recommendation with the appropriate explanation, regardless of whether deadline for implementation of recommendation has expired or not. We also informed them that they should prepare the evidence on the fulfilment of the individual recommendation which will be provided to us.

- On 9th February 2021 we received information we requested from Montenegrin and Albanian IPA Bodies. After the analysis of the received responses and documentation collected, Audit Authority in cooperation with Albanian GoA members assessed the status of the individual recommendation with the respective explanation and prepared Audit Recommendations' Status Reports which were submitted to all IPA Bodies in Montenegro and Albania.

In respect to findings from system audit performed during 2020, results of follow up are presented in Section 4.4.1 of this Report.

As for the findings from the previous years, a summary of the results of their follow up is shown in the tables below:

Status of system audit findings in respect to bodies of MS and OS in Montenegro:

Nº	Findings identified during the System audit 2017	Body	Status in February 2021	New deadline
1.	Understaffing	IA/CFCU NIPAC Office	<i>Open</i> Progress in respect to the employment of necessary staff is evident. Recommendation for the NIPAC Office has been implemented. Within the CFCU, Head of Financial Division was appointed in September 2020. However, in the WLA minimum requirements for the number of needed Accountant positions has not been fulfilled. Namely, based on the staff	May, 2021

			overview it is evident that the position of Accountant is vacant. Level of priority: <i>Intermediate</i>	
2.	Deficiency in the MoP Written Procedures	NFD NAOSO HOS Office CBC Body IA/CFCU	<i>Open</i> During last period improvement related to the updated MoP is evident. Some of the Chapters have been changed and approved. However, the difference between the chapter is evident. The changes in certain chapters have not considered compliance with other chapters to which they are reflected (Part I and Part II). Level of priority: <i>Minor</i>	September, 2021
3.	Inadequate backup of data and insufficient number of trainings related to IT	NF NAOSO HOS Office CBC Body IA/CFCU	<i>Open</i> Significant progress has been made regarding this issue. Namely, Action plan ISO 27002 regarding IT security policy was adopted on the Government session held on March 19th 2020 and in the upcoming period various activities will be conducted in order to implement this Action plan. Bearing in mind that the Steering Committee was established by the relevant Decision of the Ministry of Public Administration on November 17th 2020 the progress is evident. However, activities envisaged in the IT Action plan ISO 27002 are not implemented. Additionally, trainings related to the IT Security policy have not been initiated. Level of priority: <i>Intermediate</i>	May, 2021
N°	Findings identified during the System audit 2018	Body	Status in February 2021	New deadline
1.	Official Appointment of the HOS	NIPAC NAO	<i>Closed</i> At the Government session on 14th May 2020 HOS has been appointed in accordance with the given recommendations.	

Nº	Findings identified during the System audit 2019	Body	Status in February 2021	New deadline
1.	Functioning of Operating Structure	NIPAC MNE NAO HOS MNE CFCU NIPAC ALB HOS ALB CB	<p><i>Open</i></p> <p>Some progress has been made. During the previous period CFCU and CB had intensive communication regarding the verification process and organised bilateral meetings where the issues related to the verification of expenditure of Albanian project partners were analysed.</p> <p>During 2020 CB started with verification process and verified 17 reports by February 2021. 17 reports have not been verified yet (including 11 reports which were previously verified by Montenegrin CFCU).</p> <p>Level of priority: <i>Major</i></p>	March, 2021
2.	Audit trail for travel costs	CFCU CB	<p><i>Open</i></p> <p>Progress has been evident in respect to the CFCU verification.</p> <p>During the System audit for 2020, we reviewed 23 items of approved costs related to the budget line 2. Travel costs/international travel costs and we determined that 3 of them had not been approved in a proper manner based on the Article 19 (which refers to the method of approval of a travel order/necessary supporting documents) of aforementioned Decree, which suggests a random error with financial impact of 106,50 €.</p> <p>Additionally, findings related to the local transportation costs have been closed during contradictory procedures related to the issuing Final System Audit Report in December 2020. See Point 4.4.1 – A, Finding No1.</p> <p>Control body has not yet carried out re-check related to all expenditures of Albanian project partners, already approved by CFCU.</p> <p>Level of priority: <i>Major</i></p>	March, 2021
3.	Review of the incurred costs in	CFCU	<i>Closed</i>	

	Progress Financial Report		<p>Reviewing the Progress Financial Reports, it has been determined that controllers approved expenditures related to the human resources budget line - salaries costs in accordance with the procedures and supporting documents as well as AA auditors' recommendations.</p> <p>However, it is recommended that CFCU controllers, before approval of Final Progress reports, conduct additional checks of the costs, to make sure that approved budget line for staff has not been exceeded.</p>	
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Out of 7 findings which remained open after the previous Annual activity report, 1 of them is closed during the follow up performed together with system audit in 2020 and 1 finding during the follow up performed as separate activity in February 2021.

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

Nº	Findings identified during the System audit 2017	Body	Status in February 2021	New deadline
1.	Deficiencies in the process of issuing Annual Management Guarantee	HOS CBC Body Control Body	<i>Closed</i>	
2.	Lack of Work Load Analysis, Recruitment plan and Job descriptions	CBC Body	<p><i>Open</i></p> <p>WLA is prepared for the year 2020. Based on the WLA there is no need for additional staff.</p> <p>However, Job Descriptions have not been prepared yet.</p> <p>Level of priority: <i>Minor</i></p>	June, 2021
3.	Inadequate Human Resource policy (Training and Substitution Plan, Handover and Sensitive Posts)	HOS CBC Body	<i>Closed</i>	
Nº	Findings identified during the System audit 2018	Body	Status in February 2021	New deadline
	No open findings			

Nº	Findings identified during the System audit 2019	Body	Status in February 2021	New deadline
1.	Functioning of Operating Structure	NIPAC MNE NAO HOS MNE CFCU NIPAC ALB HOS ALB CB	<p><i>Open</i></p> <p>Some progress has been made. During the previous period CFCU and CB had intensive communication regarding the verification process and organised bilateral meetings where the issues related to the verification of expenditure of Albanian project partners were analysed.</p> <p>During 2020 CB started with verification process and verified 17 reports by February 2021. 17 reports have not been verified yet (including 11 reports which were previously verified by Montenegrin CFCU).</p> <p>Level of priority: <i>Major</i></p>	March, 2021

Out of 4 findings which remained open after the previous Annual activity report, 2 of them are closed during the follow up performed as separate activity in February 2021.

Status of audit of operation findings:

Nº	Findings identified during the Audit of operation 2019	Body	Status in February 2021	New deadline
1.	Procedures for control of eligibility of expenditure	CFCU	<p><i>Open</i></p> <p>Controllers do not perform administrative verification of fulfilment of criterion relating to the accounting. They confirmed the fulfilment of this criterion in administrative control check list but without adequate supporting documents related to accounting entries.</p> <p>Accounting evidence was checked only during the on the spot control which was not performed before approval of each Interim report.</p> <p>Level of priority: <i>Intermediate</i></p>	Until the approval of the next/Final Progress Financial Report

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

Not applicable.

8. OTHER INFORMATION

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

Not applicable.

8.2 Subsequent events occurred after the submission of the declaration of expenditure and financial statements and before the transmission of the annual audit activity report under Art. 12 (3) of Commission Implementing Regulation (EU) No 447/2014 to the Commission and considered when establishing the level of assurance and opinion by the audit authority.

Not applicable.

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

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.

Regarding CBC Programme Montenegro-Albania for the years 2014,2016,2017,2018 and 2019 overall level of assurance could not be obtained bearing in mind that Audit Authority did not perform audit of operations in the reference period since no expenditure were declared to the European Commission in the financial year 2020 for indicated financial allocation. The assurance on the proper functioning of the management and control system is based only on the result of the system audit (system assessment – please see section 4 above), and taking into account the results of the follow-up of the findings given in the previous years as well as the follow-up of the findings given during the system audit carried out during the current year where the management, control and supervision systems is assessed as *works, but some improvement(s) are needed*.

On the basis of above mentioned, we will issue an unqualified opinion on the proper functioning of the system and disclaimer of opinion on the legality and regularity of expenditure.

As for CBC Programme Montenegro-Albania for the year 2015 the assurance on the proper functioning of the management and control system is based on the combined results of both the system audit (system assessment – please see section 4 above) and the audit of operations (total error rate – please see section 5 above).

The assessment of MCSS as *works, but some improvement(s) are needed* resulting from the system audit and follow-up activities is confirmed also by the results of the audit of operations, as the determined total error rate is below materiality level. Therefore, as the management, control and supervision system is assessed as works and the total error rate is below the materiality level, we will issue an unqualified opinion on the proper functioning of the system and on the legality and regularity of expenditure for CBC Programme MNE-ALB for the year 2015.

The assurance on the Annual Financial Reports or Statements/Annual Account is based on the results of the audit as described in section 6.3 of this AAAR. Therefore, as based on the performed audit of Annual Financial Reports or Statements/Annual Account we have obtained reasonable assurance on the completeness, accuracy and veracity of the amounts declared in the accounts submitted to the Commission for the accounting year 2020, it is appropriate to issue an unqualified opinion on the reliability of Annual Financial Reports or Statements/Annual Account.

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

Not applicable.

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

The necessary corrective actions to be taken regarding the deficiencies identified during the system audit and audit of operation are presented in Chapters 4 and 5 of this report. The further implementation of the recommendation will be monitored in the following period.

9.4 Assessment of any relevant subsequent adjustments made and corrective actions taken such as financial corrections included in the declaration of expenditure and financial statements and assess the residual error rate and the need for any additional corrective measures necessary both from a system and financial perspective.

During the audit of accounts, we identified that financial corrections determined during the audit of operation in amount of 515,07€ (EU part: 438,64€; other sources: 76,43€) and error in accounting entries in amount of 3,00 € (EU part) have not been included in financials statement, i.e. annual accounts (Column: Cost recognized and Open pre-financing) have not been corrected for these amounts. Therefore, this financial correction must be included in next declaration/financial reports.

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	%	%				
IPA	C (2014) 9352 2014/037-593	CBC Programme "Montenegro-Albania" 2014	/	/	/	/	/	/	/	/	/	/	/	/
IPA	C (2014) 9352 2015/038-158	CBC Programme "Montenegro-Albania" 2015	962.668,27 €	591.038,30 €	61.4	4	2	515,07 €	0.087	0.087	0,00	0.087	N.a	N.a
IPA	C (2014) 9352 2016/038-174 2017/ 038-175 2018/041-468 2019/041-470	CBC Programme "Montenegro-Albania" 2016-2019	/	/	/	/	/	/	/	/	/	/	/	/