



**MONTENEGRO
AUDIT AUTHORITY**

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ANNUAL AUDIT ACTIVITY REPORT

OF THE AUDIT AUTHORITY FOR

IPA II 2014-2020 CROSS-BORDER COOPERATION PROGRAMME

“MONTENEGRO – KOSOVO”

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
CB	Control Body
CBC	Cross-border cooperation
CFCU	Central Finance and Contracting Unit
DMS	Directorate for Management Structure
EC	European Commission
EIO	European Integration Office
EU	European Union
EUD	Delegation of the European Union
GoA	Group of Auditors
HOS	Head of Operating Structure
IA	Implementing Agency
ICF	Internal Control Framework
IPA II	Instrument for Pre-Accession Assistance II perspective
ISA	International Standards on Auditing
JTS	Joint Technical Secretariat
LTEC	Long Term Employment Contract
MCSS	Management, Control and Supervision System
MF	Ministry of Finance
MLGA	Ministry of Local Government Administration
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-Kosovo" (C (2014) 9307). It has been assisted by the Group of Auditors (GoA) composed of representatives by the Audit Authority of Montenegro and Central Harmonization Unit for Internal Audit (CHU-IA) within Ministry of Finance of Kosovo.

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

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

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

Pursuant to Article 3(f) of the Framework Agreement between Montenegro and the European Commission on the arrangements for implementation of Union financial assistance to Montenegro under the Instrument for Pre-accession Assistance (IPA II), reference period for this Annual Audit Activity Report is financial year and covers the period from 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-Kosovo". Also, the follow up of the findings and recommendations given in the course of previous audit was included in the system audit engagement.

Based on level of implementation of IPA II 2014-2020 CBC Programme "Montenegro-Kosovo", as well as in accordance with adopted Audit Strategy for period 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 KSV:** 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 2014 financial allocation and one Declaration of Expenditure regarding 2015 financial allocation. As for financial allocation for 2016 and 2017 no expenditures were declared during the 2020 while for allocation for 2018 and 2019 no contracts were signed. The population for audit of operations consisted of operations for which the cost recognized by the IA/CFCU has been declared to the EC.

Regarding 2014 allocation recognised cost has been declared for three (3) operations in the total amount of 375.366,11€ out of which 319.018,75€ is EU part and 56.347,36€ is private co-financing (other sources).

Regarding 2015 allocation recognised cost has been declared for four (4) operations in the total amount of 349.144,50€ out of which 296.049,65€ is EU part and 53.094,85€ is private co-financing (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 287.016,80€.** Sampled operations are as follow:

- CFCU/MNE/071 - Green jobs for better future of cross-border region of Montenegro and Kosovo and
- CFCU/MNE/069 - Eco and Outdoor Tourism Actions of Balkan Alps

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 561.553,59 € (477.242,22€ EU part, 84.311,37€ other contribution).

Regarding 2015 allocation the amount of cost recognised reported in AFR is 650.782,86 € (551.370,61€ EU part, 99.412,25 € 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 in the second half 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-Kosovo" for the year 2014 (2014/037-592), the Cross-Border Cooperation Action Programme "Montenegro-Kosovo" for the years 2015-2017 (2015/038-161, 2016/038-182 and 2017/038-183) and Cross-Border Cooperation Action Programme "Montenegro-Kosovo" for the years 2018-2020 (2018/041-472 and 2019/041-474) which provide assistance for cross-border cooperation in the thematic area spelled out in the IPA II 2014-2020 CBC Programme "Montenegro – Kosovo" (C(2014) 9307).

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

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

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

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

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

With a view to drawing up an audit opinion, Audit Authority assessed results of audit activities from the audits of management, control and supervision system 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-Kosovo remained the same organisation and functions within newly organised state administration.

2.1.2 Changes in the MCS in Republic of Kosovo since last Annual Audit Activity Report

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

– **National IPA Coordinator**

According to Decision of the Government of Republic of Kosovo N°.10/48 from 7th December 2020, Mr Florim Canolli has been appointed on the position of the National IPA Coordinator.

– **Head of Operating Structure**

According to Decision of the Government of Republic of Kosovo N°.02/909 from 24th November 2020, Mr Trim Berisha has been appointed on the position of the Head of Operating structure of Kosovo. Information on appointment was submitted to Montenegrin HOS on 30th November 2020.

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

The changes that occurred in MCSS in 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 – Kosovo" was prepared and submitted to the European Commission with a copy to the NAO in November 2019. The Audit Strategy was prepared on a tri-annual basis for period 2020-2022 following the model in Annex G of Montenegrin Framework Agreement and approved by Head of Audit Authority after having obtained the opinion of GoA members.

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

4. SYSTEMS AUDITS

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

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

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

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

Audit period	1. Programme (CCI and title)	2. Audit Body	3. Audited Body(ies)	4. Date of the audit	5.Scope of the audit	6.Principal findings and conclusions	7.Problems of systemic character and measures taken	8.Estimated financial impact (if applicable)	9. State of follow- up (closed /or not)
01.01.2020.-31.12.2020.	IPA II 2014-2020 Cross-Border Cooperation Programme Montenegro-Kosovo (C (2014) 9307) <i>CRIS No:</i> 2014/037-592 2015/038-161 2016/038-182 2017/038-183 2018/041-472 2019/041-474	Audit Authority of Montenegro + Goa members	1.National Fund 2.CA/CFCU 3.CBC Body MNE + JTS 4.CBC Body KSV 5.Control Body + Follow up in all bodies within MCSS of the IPA II 2014-2020 CBC Programme Montenegro-Kosovo	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>Findings related to Montenegro</u> 1. Deficiency in process of issuing Annual Management Declaration No findings identified related to Kosovo <u>Audit conclusion</u> Category 2 - Works, but some improvements are needed. For more details please refer to the point 4.4 of this report	/	/	Finding identified during system audit 2020 has been closed. For results of follow up of findings from previous years please refer to the point 7.1 of this Report

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

- 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 (KSV 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 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 2020 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 Kosovo, Head of Operating Structure in Montenegro and Head of Operating Structure in Kosovo on 29th 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 KSV and
- Control Body (KSV 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 one (1) minor finding related to Montenegrin bodies which was closed after follow up. Namely, during the process of issuing the Annual Management Declaration one of the key documents (Self-Assessment Questionnaire) had not been prepared in CBC Body. By looking at the AMD Checklist, we determined that self-assessment verification had not been conducted. The finding was closed after follow up and audit of AMD for 2020 since CBC Body performed self-assessment verification and issued AMD according to procedures.

No findings were identified in respect to Kosovo bodies.

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	NF	CA/CFCU	CBC BODY MNE	JTS	CBC BODY KSV	CB KSV
1(b)	1	-	1		-	-
1(d)	-	2	1		2	2
1(e)	1	-	1		1	1
2(a)	-	-	-		-	1
2(b)	-	-	-		-	1
3(a)	1	1	1	1	1	1
4(a)	1	1	1		1	1
4(b)	1	1	1		1	1
4(c)	1	1	1		1	1
5(a)	-	-	1		2	-
5(b)	-	-	1		1	-
TOTAL	1	2	1	1	2	2

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

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

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

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

Not applicable.

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

The evaluation of the MCSS 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-Kosovo" 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-Kosovo" 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 Central Harmonization Unit for Internal Audit (CHU-IA) within Ministry of Finance of Kosovo who performed the audit in territory of Kosovo 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 taking into account AA overall assessment of the MCSS and EGESIF 16-0014-01 guidance regarding minimal sample size when applying non-statistical sampling.

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

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

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

The audit of operations was performed on the sample of operations for which the expenditures were declared to the European Commission during 2020. One Declaration of Expenditure was sent to the European Commission regarding CBC Action Programme “Montenegro-Kosovo” for the year 2014 in total amount of 375.366,11€ (319.018,75€ EU part and 56.347,36€ private co-financing) and one Declaration of Expenditure regarding Action Programme for the year 2015 in total amount of 349.144,50€ (296.049,65€ EU part and 53.094,85€ private co-financing). As for financial allocation for 2016 and 2017 no expenditures were declared during the year 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.

Since the MCSS is the same for both Action Programmes (for the years 2014 and 2015), populations of both financial allocations considered for drawing up the sample were grouped in one population which consisted of 7 operations including 724.510,61 € of total cost recognised amounts included in CA accounting records and declared to the Commission in the financial year 2020. Population is given in the table below:

Contract	Name of the Contract	Contractor	Contracted			Open pre-financing	Cost recognised		
			EU part	Private co-financing	Total		EU part	Private co-financing	Total
FA 2014 CRIS 2014(2014/037-592)									
CFCU/MNE/068	Accursed mountains – exquisite outdoor destination	RDA for Bjelasica, Komovi and Prokletije	360.994,40	63.730,33	424.724,73	94.881,44	94.566,95	16.694,95	111.261,90
CFCU/MNE/071	Green jobs for better future of cross-border region of Montenegro and Kosovo	Municipality of Andrijevisa	223.062,32	39.383,00	262.445,32	5.533,57	152.233,18	26.877,69	179.110,87
CFCU/MNE/072	CARES- Cross-border Actions in the REproductive Health Sector	FORS Montenegro	249.107,00	44.064,44	293.171,44	129.069,97	72.218,62	12.774,72	84.993,34
Total			833.163,72	147.177,77	980.341,49	229.484,98	319.018,75	56.347,36	375.366,11

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(2015/038-161)									
CFCU/MNE/067	United Against Pollutions - UAP	Municipality of Đakovica	298.307,81	52.642,56	350.950,37	171.631,08	72.337,75	12.765,49	85.103,24
CFCU/MNE/069	Eco and Outdoor Tourism Actions of Balkan Alps	Centre for Protection and Research of Birds	377.222,40	66.568,66	443.791,06	131.333,92	91.720,05	16.185,88	107.905,93
CFCU/MNE/070	Cross-border joint initiatives for better waste management	"Komunalne djelatnosti" Plav	266.012,76	49.711,95	315.724,71	140.139,11	81.749,03	15.277,10	97.026,13
CFCU/MNE/082	Self-employment and Social Entrepreneurship for Youth	Association for Democratic Prosperity - ZID	245.286,69	43.285,89	288.572,58	87.895,68	50.242,82	8.866,38	59.109,20
Total			1.186.829,66	212.209,06	1.399.038,72	530.999,79	296.049,65	53.094,85	349.144,50

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.

One single sample representative of the grouped population (Programme for 2014 and 2015) has been selected but applying stratification per programme. One stratum includes operations within Action Programme 2014 and another stratum operation within Action Programme 2015.

Sample size has been first calculated for the whole group and subsequently allocated between two strata. Bearing in mind small number of operations (7 operations) in accounting year 2020 the sample was selected applying non-statistical sampling method by random selection of items Sample has been determined in size of 2 operations taking into account AA overall assessment of the MCSS, Commission statement regarding minimal sample size when applying non-statistical sampling, and risks identified in previous audit engagements.

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

Two (2) operations in overall amount of 287.016,80€ have been selected in the sample which represents 28,57% of the total number of units/operations (population) and 39,62% of total amount of declared costs. One operation has been selected from first stratum (Action Programme 2014) and one operation from second stratum (Action Programme 2015) using equal probability selection. Taking into account the level of assurance provided by the system audits and risks identified, the AA considers that the drawn sample is sufficient to draw conclusions and an audit opinion.

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

See point 10. of the Report.

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

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

The audit was performed on sample of 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 (%)
CBC MNE-KSV 2014					
CFCU/MNE/071 “Green jobs for better future of cross-border region of Montenegro and Kosovo” CRIS 2014(2014/037-592)	179.110,87	152.233,18	26.877,69	179.110,87	100%
CBC MNE-KSV 2015					
CFCU/MNE/069 “Eco and Outdoor Tourism Actions of Balkan Alps” CRIS 2015(2015/038-161)	107.905,93	91.720,05	16.185,88	107.905,93	100%
TOTAL	287.016,80	243.953,23	43.063,57	287.016,80	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. Municipality of Andrijevica from Contract CFCU/MNE/071 and CZIP - Centre for Protection and research of Birds and Gorska služba spašavanja Crne Gore from Contract CFCU/MNE/069.

The Kosovo GoA members carried out on the spot check at the premises of Kosovo project partners, i.e. Kosovo Advocacy and Development Centre - KADC and KODA LLC in cooperation with

Mountaineering and Alpine Society "PASHTRIKU" – Gjakov and "Gjeravica" – Deqan from Contract CFCU/MNE/069.

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

Transaction finding

1. Ineligible expenditure related to the Human Resource (per diem for missions/travel)

Project name and number: *"Eco and Outdoor Tourism Actions of the Balkan Alps"*, No: CFCU/MNE/069

Programme: CBC MNE-KSV 2015

Project partner: CZIP-Centre for Protection and research of Birds

Finding: For the First reporting period (02/11/2018-01/5/5019) Grant Beneficiary/CZIP - Centre for Protection and research of Birds reported costs in amount of 45.528,24€. However, cost recognised by CFCU as eligible were in amount of 45.337,90€ (EU: 38.537,21€ and private contribution: 6.800,69€)

Reviewing the First Progress Financial Report for contract CFCU/MNE/069 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" No: 040/16 and 028/18) Article 11 (which refer to the manner of fulfilment of a travel order) and Article 16 (which refer to the method of calculation of travel orders).

Per diems for two participants have not been calculated in acceptable manner.

Namely, two per diems each/ budget line 1.3.1.1. Abroad (staff assigned to the Action) – CZIP/ have been approved for the period 15/11/2018 – 16/11/2018 i.e. for 35 hours by CFCU in totally amount of 260,00€.

Having in mind the above-mentioned Decree, is stated that "every 24 hours spent on a business trip counts as one per diem", "time spent on a business trip between 8 and 12 hours is counted as half a per diem" we can conclude that 1,5 days for per diems should be approved/verified in totally amount of 195,00€.

According to the above-mentioned Decision 65,00€ are ineligible.

Additionally, corresponding indirect costs (according to Grant Contract General Conditions, article 14.7 maximum 7% of eligibility costs) are ineligible in the amount of 4,55€.

Total ineligible expenditure: 69,55€ (EU part: 59,12€; other sources: 10,43€)

Level of priority: Major

Recommendation:

We recommend recovery of identified ineligible expenditure in the overall amount of 69,55€.

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 1 finding with financial impact in total amount of 69,55 € (0,024%). As this error is treated as random error, it is projected (extrapolated) to the whole population (724.510,61 €), and the projected (extrapolated) error is 173,88 €.

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 724.510,61 € 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 173,88 € (0,024%) and it is below the materiality threshold of 14.490,21€ (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 1 error in the total amount of 69,55€ (EU part: 59,12€; other sources: 10,43€) was 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 173,88 € (0,024%).

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

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

Based on the audit work performed we have obtained reasonable assurance that the expenditure declared in the amount of 724.510,61 € 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 taking into account 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-Kosovo" 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-Kosovo" 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-KOS 2014	2014/037-592	749.847,35	0,00	477.242,22	0,00	272.605,13	0,00	83.316,37	83.316,37
CBC MNE-KOS 2015	2015/038-161	927.192,31	0,00	551.370,61	0,00	375.821,70	0,00	259.637,35	259.637,36
CBC MNE-KOS 2016	2016/038-182	802.094,65	0,00	0,00	0,00	802.094,65	0,00	157.905,35	263.687,04
CBC MNE-KOS 2017	2017/038-183	401.298,70	0,00	0,00	0,00	401.298,70	0,00	270.701,30	308.199,19
CBC MNE-KOS 2018	2018/041-472	0,00	0,00	0,00	0,00	0,00	0,00	0,00	960.000,00
CBC MNE-KOS 2019	2019/041-474	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/ Othersources	Source	Payment Request by Grant beneficiary	RfF from IA	Record in NF Acc system	Bridge Financing	Record in NF Acc system	RfFs to EC	Record in NF Acc system	Bank statement MF-NF-IPA Acc	Record in NF Acc system	Bank statement State Treasury Main Acc	Record in NF Acc system	Financial Forecast	Cost recognised 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 MNE-KSV 2014	833.163,72	147.177,77	Pre-financing	749.847,35	749.847,35	749.847,35	13.209,61	13.209,61	749.847,35	749.847,35	749.847,35	749.847,35	749.847,35	749.847,35	83.316,37	477.242,22	477.242,23	749.847,35	749.847,35	749.847,35	749.847,35	477.242,22	272.605,13	272.605,12	0,00
CBC MNE-KSV 2015	1.186.829,66	212.209,06	Pre-financing	927.192,31	927.192,31	927.192,31	62.343,56	62.343,56	927.192,31	927.192,31	927.192,31	927.192,31	927.192,31	927.192,31	259.637,36	551.370,61	551.311,49	927.192,31	927.192,31	927.192,31	927.192,31	551.370,61	375.821,70	375.880,82	59,13
CBC MNE-KSV 2016	1.200.000,00	188.641,95	Pre-financing	802.094,65	802.094,65	802.094,65	0,00	0,00	802.094,65	802.094,65	802.094,65	802.094,65	802.094,65	802.094,65	263.687,04	0,00	0,00	802.094,65	802.094,65	802.094,65	802.094,65	0,00	802.094,65	802.094,65	0,00
CBC MNE-KSV 2017	816.678,23	167.464,47	Pre-financing	401.299,00	401.298,70	401.298,70	0,00	0,00	401.298,70	401.298,70	401.298,70	401.298,70	401.298,70	401.298,70	308.199,19	0,00	0,00	401.298,70	401.298,70	401.298,70	401.298,70	0,00	401.298,70	401.298,70	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-KSV for the years 2014, 2016, 2017, 2018 and 2019.

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

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 No: 3011-2-06-81, from 4th February 2021, it is concluded that costs related to the activity 1. Human Resources (1.3 Per diems for mission travels) are ineligible in total amount of 69,55€ (EU part: 59,12€; other sources: 10,43€) for CBC Programme “Montenegro-Kosovo” 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 on 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-KSV for the year 2015 has not been corrected (column: Cost recognised and Open pre-financing) for the amount of 69,55€ (EU part: 59,12€; other sources: 10,43€) which was determined as ineligible costs during the audit of operation.

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*

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's 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 and has not influenced the correctness of the Annual Financial Reports for 2020.

The audit of operation has resulted in financial corrections regarding the reference period. Namely, in the Final Audit of Operation Report No: 3011-2-06-81, from 4th February 2021, it is concluded that costs in total amount of 69,55€ (EU part: 59,12€; other sources: 10,43€) for CBC Programme “Montenegro-Kosovo” 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.

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 in the Part 6.2 of this Report related to the CBC Programme “Montenegro-Kosovo” for the year 2015. Correction which should be made is below materiality level of 2 % (13.015,65€ for Cost recognised and 7.516,43€ 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 AA performed follow up as separate activity before issuing the AAAR and AAO.

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

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

- On 09th February 2021 we received information we requested from Montenegrin and Kosovo IPA Bodies. After the analysis of the received responses and documentation collected, Audit Authority in cooperation with Kosovo GoA members assessed the status of the individual recommendation with the respective explanation and prepared Audit Recommendations' Status Reports which were submitted to all IPA Bodies in Montenegro and Kosovo.

In respect to findings from system audit performed during 2020, results of follow up are presented in Section 4.4 of this Report.

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

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

Nº	Findings identified during the System audit 2017	Body	Status in February 2021	New deadline
1.	Understaffing	IA/CFCU, NIPAC Office	Open 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 overview it is evident that the position of Accountant is vacant. Level of priority: <i>Intermediate</i>	May 2021

2.	Deficiency in the MoP Written Procedures	NFD, NAOSO, HOS Office, CBC Body, IA/CFCU	<p>Open</p> <p>During last period improvement related to the updated MoP is evident. Some of the Chapters have been changed and approved.</p> <p>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).</p> <p>Level of priority: <i>Minor</i></p>	September 2021
3.	Inadequate backup of data and insufficient number of trainings related to IT	NF, NAOSO, HOS Office, CBC Body, IA/CFCU	<p>Open</p> <p>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.</p> <p>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.</p> <p>However, activities envisaged in the IT Action plan ISO 27002 are not implemented.</p> <p>Additionally, trainings related to the IT Security policy have not been initiated.</p> <p>Level of priority: <i>Intermediate</i></p>	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	<p>Closed</p> <p>HOS has been appointed in accordance with the given recommendations.</p> <p>The finding is closed.</p>	
N°	Findings identified during the System audit 2019	Body	Status in February 2021	New deadline
	No open findings			

Out of 4 findings which remained open after the previous Annual activity report, 1 of them was closed during the follow up performed together with system audit in 2020.

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

Nº	Findings identified during the System audit 2017	Body	Status in February 2021	New deadline
1.	Missing internal procedures and templates for fraud risk	CBC Body	<i>Partly implemented</i> Trainings for handling of irregularities and fraud have not been implemented yet. Level of priority: <i>Intermediate</i>	September, 2021
2.	Deficiencies in the Risk Management	CBC Body	<i>Partly implemented</i> Trainings in respect to risk management have not been implemented yet. Level of priority: <i>Intermediate</i>	September, 2021
3.	Lack of Inter-institutional agreements	NIPAC HOS CBC Body Control Body	<i>Open</i> Inter-institutional agreements have not been endorsed yet. Level of priority: <i>Intermediate</i>	September, 2021
4.	Internal audit unit in the Ministry of Local Government Administration (MLGA)	HOS, CBC Body	<i>Partly implemented</i> The IAU Audit Manual has not been updated and trainings for audit of EU funds have not been provided for IAU staff. Level of priority: <i>Intermediate</i>	September, 2021
Nº	Findings identified during the System audit 2018	Body	Status in February 2021	New deadline
1.	Lack of Irregularity Officer and trainings in respect to irregularities	Control Body	<i>Partly implemented</i> Trainings for handling of irregularities and fraud have not been implemented yet Level of priority: <i>Intermediate</i>	September 2021
2.	Deficiencies in the Risk Management	Control Body	<i>Partly implemented</i> Trainings in respect to risk management have not been implemented yet. Level of priority: <i>Intermediate</i>	September 2021

N°	Findings identified during the System audit 2019	Body	Status in February 2021	New deadline
	No open findings			

None of 6 findings which remained open after the previous Annual audit activity report were closed during the follow up performed together with system audit in 2020 or as a separate activity in February 2021.

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 – Kosovo for the years 2014 and 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).

As a result of the system audit, and taking into account the results of the follow-up of the findings given in the previous years as well as the follow-up of the findings given during the system audit carried out during the current year, the management, control and supervision systems is assessed as *works, but some improvement(s) are needed*. This assessment resulting from the system audit and follow-up activities is confirmed also by the results of the audit of operations, as 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.

As for CBC Programme Montenegro-Kosovo for the years 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, and taking into account the results of the follow-up of the findings 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.

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 finding identified during the system audit was closed after performed follow up. The necessary corrective actions to be taken regarding the deficiencies identified during the audit of operation are presented in Chapters 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 correction determined during the audit of operation in amount of 69,55€ (EU part: 59,12€; other sources: 10,43€) has not been included in financials statement, i.e. annual accounts (Column: Cost recognized and Open pre-financing) have not been corrected for this amount. 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) 9307 2014/037-592 2015/038-161	CBC Programme Montenegro- Kosovo 2014- 2015	724.510,61€	287.016,80€	39,62%	7	2	69,55 €	0,024 %	0,024 %	0,00	0,024	N.a	N.a
IPA	C(2014) 9307 2016/038-182 2017/038-183 2018/041-472 2019/041-474	CBC Programme Montenegro- Kosovo 2016- 2019	/	/	/	/	/	/	/	/	/	/	/	/