



MONTENEGRO
AUDIT AUTHORITY

No: 3011-4-06-201

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

FOR THE PERIOD
1st JANUARY 2022 – 31st DECEMBER 2022

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LIST OF ABBREVIATIONS

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

1. INTRODUCTION

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

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

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

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

The Audit Authority is responsible for verifying:

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

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

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

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

Pursuant to Article 3(f) of the Framework Agreement between Montenegro and the European Commission on the arrangements for implementation of Union financial assistance to Montenegro under the Instrument for Pre-accession Assistance (IPA II), reference period for this Annual Audit Activity Report is financial year and covers the period from on 1st January to 31st December 2022.

The overall objective of the system audit was to verify the effective and efficient functioning of the management, control and supervision system established in the whole structure, i.e. authorities responsible for implementation of 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES) under IPA II. For the purpose of detailed defining scope of the audit, we performed a risk assessment to determine the bodies and ICFR area which will be covered by system audit. For the preparation of Audit

Strategy, risks were identified and taken into account at the programme/structure and authorities' level. Additionally, in order to define the key requirements within each body and ICFR area, we performed risk assessment at the level of each assessment criterion/requirement during system audit engagement planning. For more details about scope of system audits carried out, see sections 4.2 and 4.4.

With a view to verify the legality and regularity of declared expenditure, the AA of Montenegro conducted an audit of operations in the framework of the 2015-2017 Multi-annual Action programme for Montenegro on Employment, Education and Social policies on expenditure declared to EC in 2022. Costs declared as "recognised" in the Declaration of Expenditure (within the Request for Funds), and submitted by the NAO to the Commission, constitute the population for audits of operations/transactions.

During 2022 the Deputy NAO declared expenditure regarding 2015-2017 SOPEES through submission of one declaration of expenditure. The audit of operations in the framework of the IPA II 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies has been performed on the selected operations for which the expenditure was paid and the costs recognised by the Implementing Agencies CFCU and CPA with cut-off date 13th December 2022 and declared to the European Commission (EC). The Declaration for Expenditure (within the Request for Funds Instalment No.3) was sent to EC on 14th December 2022 (Letter No.05-908/22-192/1). It included new expenditure related to 57 operations/contracts – 1 direct award/grant, 11 service contracts, 4 supply contracts, 40 grant contracts and 1 works contract.

Total amount of new expenditure declared through this DoE is 8.600.356,81 EUR (EU contribution 6.890.700,79 EUR and IPA II Beneficiary or other third-party contribution 1.709.656,02 EUR). Sampling unit which is used for the Audit of Operations for this year is contract/project. As the overall population consisted of 57 units and it had an insufficient size to be audited through statistical sampling, we have decided to use a non-statistical approach (sampling was made in specialized CAAT tool CaseWare IDEA) with stratification of the high-value item since there was an operation with extremely large expenditure (direct award/grant). Therefore, high-value stratum (Stratum 1) consisted of expenditure for Direct award/grant-Support to Self-Employment in the amount 1.959.165,08 EUR and the remaining population size (Stratum 2) was 56 items (contracts) with the total value of 6.641.191,73 EUR. Additionally, we decided to sample the population using equal probabilities. For more details about scope of audit of operations/transactions carried out in 2022, see sections 5.2 and 5.7.

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

The summarized data regarding the total amounts contracted, decommitted, disbursed, recognized and open pre-financing as well as recoveries and bank balance, which were submitted in the AFR for 2022, is presented in the table below:

<i>Sectoral Operational Programme for Employment, Education and Social policies 2015-2017</i>		
<i>Financing Agreement CRIS No 2015/037-895</i>		
Total Amount Contracted	EU contribution	14.951.578,43
	National contribution	2.638.513,81
	Other sources	1.125.018,05
Total Amount Decommitted on closure	EU contribution	0,00
	National contribution	0,00
	Other sources	0,00
Total Amount Disbursed	EU contribution	12.757.445,58
	National contribution	2.251.313,94
	Other sources	0,00
Total Costs Recognized	EU contribution	8.462.828,57
	National contribution	1.493.440,29
	Other sources	521.878,21
Total Open Pre-financing	EU contribution	4.294.617,01
	National contribution	757.873,63
	Other sources	0,00
Recovery context	Errors	0,00
	Irregularities	0,00
	Fraud	0,00
	No context	19.658,75
Bank Balances (EU contribution)	Total	2.558.894,61

Table 1

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

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

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

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

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

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

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

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

- **National IPA Coordinator of Montenegro** - State Secretary in the Ministry of European Affairs.
- **The National Authorizing Officer of Montenegro** - State Secretary in the Ministry of Finance.
- **Directorate for the Management Structure** with two separate divisions, one for financial issues (Division for National Fund) and one for the support to the NAO (Division for System Supervision).
- **The Operating Structure (OS)** composed of: NIPAC office, Implementing Agencies Central Finance and Contracting Unit (CFCU) and Capital Projects Administration (CPA)¹, Project Implementation Units of the line ministries²: Ministry of Labour and Social Welfare (part related to labour of former PIU in the Ministry of Economic Development and part related to social inclusion of former PIU in the Ministry of Finance and Social Welfare), Ministry of Education (part of former PIU in the Ministry of Education, Science, Culture and Sports), Ministry of Science and Technological Development (part of former PIU in the MESCS) and Ministry of Human and Minority Rights (part of former PIU in the Ministry of Justice, Human and Minority Rights).

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

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

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

The NAO prepares and, with copy to the NIPAC and the Audit Authority, provides the Commission with annual financial reports or statements on accrual basis which clearly distinguishes costs accepted and payments made, an annual management declaration per

¹According to the Decree on amendments on Decree on the organization and manner of work of the state administration, which was published on 29th July 2022, the Public Works Administration became Capital projects Administration.

²The new Government of Montenegro was established on 28th April 2022 and new Decree on the organization and manner of work of the state administration was adopted on 6th May 2022. The mentioned Decree has significantly changed the organization of the entire state administration and especially the organization of the PIUs within SOPEES. Accordingly, the part (which was in charge of employment policy) of PIU in former MED belonged to PIU in MLSW as well as the part (social welfare) of PIU from former MFSW; PIU in former MESCS is divided into two PIUs – one in the MoE and second in the MSTD; PIU in former MJHMR is divided into two PIU out of which one is in the MHMR.

programme and a summary of the reports on the internal audits and of controls carried out by the management structure, providing a sound basis for the management declaration by 15th February of the following financial year.

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

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

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

2. SUBSTANTIAL CHANGES IN MANAGEMENT AND CONTROL SYSTEMS

The AA regularly monitored and gathered information on changes in the Management, Control and Supervision System (MCSS) and we reported on significant changes in MCSS in our AAARs. Within the previous AAAR (for 2021), we reported about significant changes which occurred until the end of December 2021.

In this AAAR we described significant changes occurred in the period from 1st January to 31st December 2022.

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 2022 the NAO/Deputy NAO informed the European Commission and Audit Authority about substantial and planned changes in the system.

➤ Personal changes

National Authorising Officer

Mr Janko Odović, as State Secretary in the Ministry of Finance, was resigned on the Government session held on April 28th 2022 from the function of the National Authorizing Officer/NAO, on the Government session held on April 28th 2022.

Ms Mila Kasalica, appointed as State Secretary in the Ministry of Finance, on the Government session held on April 28th 2022 was designated to perform the function of the National Authorizing Officer/NAO, on the Government session held on July 1st 2022.

Ms Mila Kasalica, as State Secretary in the Ministry of Finance, was resigned on the Government session held on December 8th 2022 from the function of the National Authorizing Officer/NAO, on Government session held on December 8th 2022.

Mrs Ana Raicevic, Secretary General in the Ministry of Finance, was appointed as the NAO at the Government session held on January 20th 2023.

Deputy National Authorising Officer

Ms Ivana Maksimović was resolved from the position Deputy NAO at personal request within Directorate for Management Structure, Ministry of Finance on March 7th 2022.

Ms Anja Amidžić was appointed as acting Director General of DMS- Deputy NAO, on Government session held on October 6th 2022.

The Government of Montenegro, at the session held on December 28th 2022, adopted the Decision on re-appointment of Ms Anja Amidzic as the Deputy NAO/ Director General of Management Structure.

National IPA Coordinator

Ms Zorka Kordić has been resigned from the position of Deputy Chief negotiator – National IPA Coordinator, on the Government session held on July 1st 2022.

Mr Aleksandar Mašković has been designated to perform the function of the National IPA Coordinator, on the Government session held on July 1st 2022.

Mr Aleksandar Mašković was resigned on the Government session held on December 8th 2022 from the function of the National IPA Coordinator, on Government session held on December 8th 2022.

Mrs Milena Zizic, the State Secretary in the Ministry of European Affairs, was appointed as the National IPA Coordinator at the Government session held on January 20th 2023.

Head of NIPAC Office

Ms Milica Abramović Radivojkov was appointed on the position of the Head of Division for Coordination of EU assistance/Head of NIPAC Office in January 2022.

Head of Directorate for Management Structure

Ms Anja Amidžić was officially appointed on the position of the Director General within Directorate for Management Structure, Ministry of Finance on the Government session held on April 20th 2022.

Head of CFCU/IA

Ms Marija Vukčević was resigned from the position of HEAD of IA – CFCU, on Government session held on October 6th 2022.

Ms Jelena Davidović was appointed as acting Director General – Head of IA CFCU, on Government session held on October 6th 2022.

Head of CPA/IA

Mr Esmin Bećović started his engagement as Director of Capital Project Administration (IA) on August 3rd 2022.

SPO in PIU in the Ministry of Education

The Government of Montenegro, at the session held on January 20th 2023, was adopted the Decision on the re-appointment of Mr Goran Drobñjak as Director General (SPO) of Directorate for International Cooperation, European Integrations and EU Funds in the Ministry of Education.

SPO in PIU in the Ministry of Human and Minority Rights

Mr Sreten Jakić was appointed to perform the function of the Director General/SPO within MJHMR, on the Government session held on February 2nd 2022.

Mr Sreten Jakić was resigned from the position of the Director General/SPO within MJHMR in June 2022.

Ms Irena Vragić appointed to perform the function of the Director General/SPO within MHMR on September 1st 2022.

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

The changes that occurred in MCSS in 2022 have been communicated to the European Commission and the Audit Authority.

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

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

3. CHANGES TO THE AUDIT STRATEGY

3.1. Details of any changes that have been made to the audit strategy or are proposed, and of the reasons for them

According to the Article 12 of Commission Implementing Regulation No 447/2014 the Audit Authority shall carry out audit in accordance with Audit Strategy prepared on a tri-annual basis.

The Audit Strategy for IPA II 2015-2017 Sectoral operational programme for Montenegro on Employment, Education and Social policies (SOPEES) was prepared and submitted to the European Commission with a copy to the NAO in November 2021. The Audit Strategy was prepared on a tri-annual basis for period 2022-2024 following the model in Annex G of Montenegrin Framework Agreement and approved by Deputy Auditor General.

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

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

Not applicable.

4. SYSTEM AUDITS

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

The audit body that has carried out system audit in 2022 is Audit Authority of Montenegro, Department for audit of the programs - employment, social policies, education, promotion of gender equality and development of human capacities. The Audit Authority of Montenegro, as an independent audit body, was established by the Law on Audit of European Union funds ("Official Gazette of Montenegro" No 14/12, 54/16, 37/17 and 70/17).

In accordance with the Law on Audit of EU Funds and the Audit Strategy 2022-2024 for the 2015-2017 Sectoral operational programme for Montenegro on Employment, Education and Social policies (SOPEES), the AA of Montenegro conducted an audit of the management, control and supervision system (hereinafter: MCSS) established in bodies being the part of the management and operating structure of the Programme.

4.2. Summary table of the audits carried out

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)
November/December 2021 - November/December 2022	C(2015) 9051 09/12/2015 CRIS decision No. 2015/037-895 Multi-annual action programme for Montenegro on Employment, Education and Social policies	Audit Authority of Montenegro	CFCU / IA	June – December 2022	ICFR 3 ICFR 5	Delays in the payment procedure	/	/	Open
November/December 2021 - November/December 2022	C(2015) 9051 09/12/2015 CRIS decision No. 2015/037-895 Multi-annual action programme for Montenegro on Employment, Education and Social policies	Audit Authority of Montenegro	CFCU / IA MSTD/PIU	June – December 2022	ICFR 1 ICFR 3 ICFR 5	Non-compliance with procedures related to OTSV	/	/	Open
November/December 2021 - November/December 2022	C(2015) 9051 09/12/2015 CRIS decision No. 2015/037-895 Multi-annual action programme for	Audit Authority of Montenegro	CFCU / IA	June – December 2022	ICFR 3 ICFR 5	Omissions in the accounting procedure	/	/	Partially implemented

ANNUAL AUDIT ACTIVITY REPORT

	Montenegro on Employment, Education and Social policies								
November/December 2021 - November/December 2022	C(2015) 9051 09/12/2015 CRIS decision No. 2015/037-895 Multi-annual action programme for Montenegro on Employment, Education and Social policies	Audit Authority of Montenegro	CPA/IA	June – December 2022	ICFR 1 ICFR 3 ICFR 5	Lack of adequate audit trail for conducted controls within the tender procedure	/	/	Open
November/December 2021 - November/December 2022	C(2015) 9051 09/12/2015 CRIS decision No. 2015/037-895 Multi-annual action programme for Montenegro on Employment, Education and Social policies	Audit Authority of Montenegro	All PIUs	June – December 2022	ICFR 3 ICFR 4 ICFR 5	Incomplete monitoring and reporting at action level	/	/	Open
November/December 2021 - November/December 2022	C(2015) 9051 09/12/2015 CRIS decision No. 2015/037-895 Multi-annual action programme for Montenegro on Employment, Education and Social policies	Audit Authority of Montenegro	NIPAC NIPAC Office	June – December 2022	ICFR 2 ICFR 5	Deficiencies in reporting on programme level	/	/	Open

Table 2

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

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

For the purpose of detailed defining of the scope of the audit, during the preparation of Audit Strategy for period 2022-2024 the Audit Authority performed a detailed risk assessment to determine the bodies and ICFRs which will be covered by system audit. Additionally, in order to define the sub-criteria within each ICFR which will be encompassed by the appropriate audit activities in particular body, we performed risk assessment at the level of each requirement during system audit engagement planning.

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

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

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

4.4. Details of the audits carried out

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

On the basis of results of performed risk assessment during the preparation of the Audit Strategy 2022 – 2024, understanding of audit environment and performed risk assessment during the preparation phase of this audit engagement, we decided which bodies, audit areas (ICFR, sub-criteria, and processes) as well as specific audit/compliance objective per audit area will be covered within this system audit. As a result of performing previously mentioned activities we decided that during 2022 the following bodies will be audited: NAO/NAOSO, NFD, CFCU, CPA (former Public Works Administration), MLSW (part of former PIU in the Ministry of Economic Development and part of the former PIU in the Ministry of Finance and Social Welfare), MoE (former PIU in the Ministry of Education, Science, Culture and Sports), MSTD (part of former PIU in the Ministry of Education, Science, Culture and Sports), MHMR (part of former PIU in Ministry of Justice, Human and Minority Rights) and NIPAC office.

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

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

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

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

ICFR \ AUDITEE	NAO SO	NFD	CFCU (IA)	CPA (IA)	MLSW (PIU)	MoE (PIU)	MSTD (PIU)	MHMR (PIU)	NIPAC Office
1(c) Establishment of structures, reporting lines, and authorities and responsibilities	/	/	/	1	1	1	1	1	/
1(d) Staff planning, recruitment, retention, training and appraisal	/	/	/	2	2	1	1	2	/
3(a) Selection and development of control activities	/	1	2	2	/	/	/	/	/
3(c) Policies and procedures related to control activities	1	1	1	1	/	/	/	/	/
4(a) Information to support functioning of internal controls	/	1	/	/	/	/	/	/	2
4(c) External communication	/	1	/	/	/	/	/	/	2
5(a) On-going and specific monitoring	1	/	1	1	2	2	2	2	2
5(b) Assessment, recording and communication of internal control deficiencies	1	/	1	1	1	1	1	1	1
TOTAL:	1	1	2	2	2	2	2	2	2

Table 3

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

Principal findings identified in the particular ICFR are as follows:

ICFR 3 – CONTROL ACTIVITIES

➤ Finding No 1: Delays in the payment procedure

Body/-ies concerned by the finding: Implementing Agency - CFCU

According to the PRAG (Version 2020.0), Annex II General conditions applicable to European Union-financed grant contracts for external actions Article 15 — Payment and interest on late payment following is stipulated:

“ 15.1. The contracting authority must pay the grant to the coordinator following one of the payment procedures below, as set out in Article 4 of the special conditions.

.... Option 2: Actions with an implementation period of more than 12 months and grant of more than EUR100 000

(i) an initial pre-financing payment of 100 %

(ii) further pre-financing payments of 100 % of the part of the estimated budget financed by the contracting authority for the following reporting period (excluding not authorised contingencies):

....

- within 60 days following the end of the reporting period, the coordinator shall present an interim report or, if unable to do so, it shall inform the contracting authority of the reasons and provide a summary of progress of the action,

.....

15.4. The initial pre-financing payment shall be made within 30 days of receipt of the payment request by the contracting authority.

Further pre-financing payments and payments of the balance shall be made within 60 days of receipt of the payment request by the contracting authority...

15.5. Without prejudice to Article 12, the time-limits for payments may be suspended by notifying the coordinator... The suspension of the time-limits for payments starts when the above notification is sent to the coordinator. The time-limit starts running again on the date on which a correctly formulated request for payment is recorded. The coordinator shall provide any requested information, clarification or document within 30 days of the request. If, notwithstanding the information, clarification or document provided by the coordinator, the payment request is still inadmissible, or if the award procedure or the implementation of the grant proves to have been subject to irregularities, fraud, or breach of obligations, then the contracting may suspend payments, and in the cases foreseen in Article 12, terminate accordingly this contract... “

Analysing the documentation related to sample of 8 contracts, we found certain deficiencies within the whole payment procedure (from sending request for payment to the payment execution) for grant contracts CFCU/MNE/109, CFCU/MNE/110 and CFCU/MNE/130. We determined significant difference between dates of sending requests for payment by coordinator/grant beneficiary and dates of receipts of RfPs by IA - CFCU, violation of time-limits for providing information on requests for clarifications and consequently delays in payment execution.

Namely, request for further pre-financing for grant contract CFCU/MNE/109, supported with narrative and financial interim report, dated on 10/04/2021, was received by CFCU on 13/05/2021. Time-limit for payment was suspended due to requests for additional information and clarification and it lasted from 04/06/2021 until 09/12/2021. During this period CFCU sent 4 requests for additional clarifications and received requested information with significant delays which means that grant beneficiary didn't provide information within 30 days. Finally, written approval was issued on 15/12/2021 and payment was executed on 27/12/2021.

Request for further pre-financing for grant contract CFCU/MNE/110 (supported with narrative and financial interim report), dated on 20/04/2021, was received by CFCU on 18/05/2021. Period for payment was suspended by notifying beneficiary about requested information and

suspension lasted until 14/10/2021. Requested information hasn't been provided within prescribed deadline. Furthermore, we determined certain inconsistencies between data in *Checklist for Grant contracts Interim payments* and data in *Checklist for Grant contracts: Financial reports* and which are related to dates/periods of suspension. Written approval was issued on 21/10/2021 and payment was executed on 22/11/2021.

Also, we determined that request for payment of the balance for grant contract CFCU/MNE/130, dated on 05/11/2021, was received by the CFCU on 08/12/2021. Request for payment was supported with detailed breakdown of expenditure and narrative and financial final report. Time-limit for payment was suspended on 02/12/2021 and grant beneficiary provided clarification on 19/01/2022 so the total number of suspension days was 48. Payment was executed on 03/03/2022.

Summarized data is presented in following table:

No of grant contract	Date of Request for Payment	Date of receipt of Request for Payment	Start date of suspension period	End date of suspension period	Adjusted deadline for payment execution	Date of payment
CFCU/MNE/ 109	10/04/2021	13/05/2021	04/06/2021 26/06/2021 21/07/2021 05/10/2021	26/06/2021 14/09/2021 05/10/2021 09/12/2021	15/02/2022	27/12/2021
CFCU/MNE/110	20/04/2021	18/05/2021	18/05/2021 01/09/2021 01/10/2021	20/08/2021 20/09/2021 14/10/2021	20/12/2021	22/11/2021
CFCU/MNE/130	05/11/2021	8/12/2021	02/12/2021	19/01/2022	25/04/2022	03/03/2022

Therefore, these delays in payment procedure compared to the date of receipt of payment requests could lead to risk that activities wouldn't be implemented by grant beneficiary as it was planned due to insufficiency of available funds. Also, there is a risk of additional costs due to delays because if the contracting authority pays the coordinator after the time limit, it shall pay default interests.

Recommendation:

We recommend improving controls within the payment procedure in order to ensure that provisions of contracts signed as well as provisions prescribed by PRAG, General conditions, and which are related to payment procedures, payment deadlines and suspension of the period for payments, are fully respected.

ICFR 3 – CONTROL ACTIVITIES AND

ICFR 5 - MONITORING OF INTERNAL CONTROL FRAMEWORK

➤ Finding No 2: Non-compliance with procedures related to OTSV

Body/-ies concerned by the finding: CFCU/IA and MSTD (PIU)

According to the Manual of Procedures, chapter Contract implementation and OTSV, section 4 On the spot verifications, the following is stipulated:

“On-the-spot verifications are important elements of internal control as a monitoring tool to ensure that the implementation of contracts and the financial procedures set out within IA are in accordance with IPA II and national rules and follow the principle of sound financial management. The aim of the on-the-spot verification is to identify whether the contracts which

are financed from IPA II Action Programmes were:

- implemented properly in accordance with the contract conditions (for completed projects)
- if the implementation of the contracts is ongoing according to the documents which are provided to the IA,

i.e. on-the-spot verification is performed for the already implemented contracts as well as for the contracts under the implementation. These verifications shall cover administrative, financial, technical and physical aspects of operations, as appropriate, and will check compliance with rules. During the on-the-spot verifications the comparison is done of the contracted, actual and reported from the point of view of scope, quantity, time schedule, etc...

The on-the-spot verification must be performed by at least two IA staff members (Notes: In case of work contracts, OTSV shall be performed by the Supervisor and Contract Manager. In case of service contracts for supervision of works, OTSV shall be performed by two IA Contract Managers. In case of all other types of contracts, including service contracts, OTSV shall be performed by the IA Contract Manager and Financial Controller). Representatives of the Contractor/Grant beneficiary participate in the on-the-spot verification. Representatives of the responsible PIU and the responsible beneficiary institution(s) are always invited to take part in the on-the-spot verifications. However, for service contracts, representatives of the responsible PIU and beneficiary institution(s) are not obliged to attend on-the-spot verifications; for grant contracts, they shall attend at least one on-the-spot verification, while for supply and work contracts, representatives of the responsible PIU and beneficiary institution(s) shall always attend the announced on-the-spot verification.”

Grant contract CFCU/MNE/130 (M1.0.2.04.02.C03) was concluded on 9/3/2020 to finance the implementation of the action entitled: 3D Virtual Heritage. Implementation period started on 10/3/2020 and ended 18 months later on 10/9/2021. From the start of implementation of contract two on the spot verifications have been performed. The first OTSV was performed during the implementation period, i.e. on 28/5/2021, and its purpose was to determine if the implementation of the contract is ongoing according to the documents which were provided to the IA. According to the OTSV Report, documentation that had been verified had no irregularities. The second OTSV was performed on 18/1/2022 and its purpose was to review supporting documentation for the activities implemented during entire contract implementation period before the final payment is made. The conclusion in the OTSV Report was also that documentation that had been verified had no irregularities. Representatives of the responsible PIU (PIU Ministry of Science from the start of implementation period and after December 2020 PIU Ministry of Education, Science, Culture and Sports) didn't participated in either of the two OTSVs for this grant contract. Consequently, responsible PIU's support in covering technical aspects of the contract wasn't provided.

Moreover, payment request for further pre-financing for grant contract CFCU/MNE/110 dated 20/04/2021, was received on 18/05/2021 by CFCU. Grant beneficiary requested reallocation between the budget headings above 25%. The first suspension of payment started from the day of receipt of payment request and lasted until 20/08/2021, even though on-the-spot verification was performed by CFCU on 23/7/2021. As a result of this OTSV, it was concluded that required information (car log book) should be submitted to CFCU at the latest by 30/07/2021 and no more irregularities were identified. After this, there were two more suspensions due to requests for additional information. Finally, written approval was issued on 21/10/2021 and payment executed on 22/11/2021.

Additionally, payment request for further pre-financing for grant contract CFCU/MNE/109 dated 10/04/2021, was received on 13/05/2021. There were two requests for additional

information before planned OTSV was performed on 30/07/2021 with no findings and irregularities and advice regarding licensing issue. After performed OTSV, the procedure and control activities for issuing the written approval lasted until 15/12/2021, and finally payment executed on 27/12/2021.

Taking into account all previously described, we consider that on-the-spot verification for this grant contract, in general, didn't fulfill its purpose.

Recommendation:

We recommend to perform on-the-spot verifications in line with prescribed procedures regarding participation of representatives of the responsible PIU.

We recommend that on-the-spot verifications are performed with purpose of gathering information that are needed for issuing written approval and checking if the implementation of the contracts is ongoing according to the documents which are provided to the CFCU.

➤ ***Finding No 3: Omissions in the accounting procedure***

Body/-ies concerned by the finding: Implementing Agency - CFCU

According to the Manual of Procedures, chapter Accounting, section 4.1. Organisation of accounting system, the following is prescribed:

“Accounting operations at the IA shall be operated by the Accountant and controlled by the Financial Controller, as well as approved by the Head of Finance Division.
...Detailed audit trail for accounting procedure is described in Annex 1.”

And according to section 5. Records and control:

“Source documents are the documents which are supporting the accounting entries. Each accounting entry is supported by a dated item of documentary evidence, e.g.:

- copies of Invoices/Payment requests,
- copies of Requests for funds to DMS and other relevant accounting documents...

To ensure an efficient cross referencing, the following information will be mentioned on each journal base document and check-list attached to the source document:

- Journal document number and identification type of source document,
- Account(s) debited: number and amount,
- Account(s) credited: number and amount,
- Document date,
- Posting date,
- Signature of person responsible for making entries,
- Signature of person responsible for control of these entries.”

In the mentioned Annex 1 of the chapter Accounting, it is stipulated that accountant fills in the check-list for accounting procedure on the day of receipt of source document, and financial controller reviews the accuracy of the records and fills in, dates and signs the accounting check list next day from the receipt of documents from the Accountant.

Reviewing and examining the documentation for the sample of transactions which we checked during this system audit, we noticed in a number of cases where accounting check lists are not filled in accordance with the procedure, i.e. the accountants didn't fill check lists on the day of receipt of source documents.

Furthermore, regarding grant contract CFCU/MNE/110 “I know where just show me how”

(M1.0.3.02.01. C20.r1), some entries in accounting software were omitted, as follows:

- when request for funds was approved and notification letter sent to contractor on 22/11/2021, accounting entries for notification letter weren't made (965-915, 961-911);
- when payment was executed to grant beneficiary on 22/11/2021, off balance accounting entry wasn't made (964-914).

Additionally, for grant contract CFCU/MNE/109 accounting entry of the notification letter to contractor that payment will be executed was not made on the basis of this source document bearing in mind that accounting entry was made on 27/12/2021, although the date of notification letter is 28/12/2021 when actually it was sent to grant beneficiary.

Recommendation:

We recommend to CFCU to post omitted entries regarding grant contract CFCU/MNE/110 in order to ensure complete accounting. Also, we recommend to improve controls within accounting procedures so that all relevant accounting entries are made and on the basis of source document and accounting check lists filled in line with prescribed procedures.

- ***Finding No 4: Lack of adequate audit trail for conducted controls within the tender procedure***

Body/-ies concerned by the finding: Implementing Agency - CPA

According to the Framework Agreement between Montenegro and the European Commission on the arrangements for implementation of Union financial assistance to Montenegro under the Instrument for Pre-accession Assistance (IPA II), Annex A, Clause 4, point (3), the following provisions shall be respected:

“The operating structure shall fulfil the following functions and assume the following responsibilities:

...

(b) As regards the selection and control of actions and financial management, the operating structure shall in accordance with the relevant Articles of this Agreement:

...

(iii) set up procedures to ensure retention of all documents regarding procurement, grant award, contracting, financial management, controls and audits required to ensure an adequate audit trail;

...”

According to the MoP, chapter Contract procedures, it is prescribed that documents within main steps of procurement procedure have to be checked and verified by employees from Contracting division (contract managers, Head of CD), cross-checked by the Quality Assurance Specialist and endorsed/signed by the Head of IA. To confirm that these checks have been conducted, IA staff has to fill in and sign appropriate checklists (appendixes, annexes) for each type of procurement procedure.

During this audit engagement we audited and assessed the effectiveness of the established internal controls in the Capital Projects Administration (IA) related to, inter alia, conducting the tender procedure “Works for Adaptation of the school buildings for accessibility and movement of disable persons and persons with mobility difficulties” (publication ref: NEAR/TGD 12020/EA-LOP 10057). By reviewing and analyzing documentation related to this tender, we have determined that there is no adequate audit trail that appropriate checks of PIN, TD, SCN, CN, EvRep, CD have been conducted. During the interviews with ACP staff, we

have been informed that they normally perform checks of all previously mentioned documents through all steps of procurement procedure but did not have any adequate evidence (appropriate appendix – annex) by which they could prove these claims, i.e. that relevant checks and verifications within aforementioned tender procedure have been performed.

This may lead to the potential risk of inadequate preparation and endorsement of documents (PIN, TD, SCN, CN, EvRep, CD) during the tendering, evaluation and contracting phase. Potential omissions during the tender procedure may cause negative financial effects.

Recommendation:

We recommend to CPA/IA to improve controls, perform relevant checks during the whole tender procedure and to document it, i.e. to ensure adequate and appropriate audit trail (signed appendix – annex) that controls/checks prescribed by MoP have actually been performed.

➤ ***Finding No 5: Incomplete monitoring and reporting at action level***

Body/-ies concerned by the finding: all PIUs

According to the to the Manual of Procedures, chapter Programme Action Monitoring, section 3.3 Monitoring and Reporting at Action Level, the following is stipulated:

“Drawn up under the coordination of NIPAC office and prepared by PIUs/Lead SPOs, QAMR contains financial data provided by the CFCU and PWA. QAMRs shall be submitted to the NIPAC office, quarterly during the year, with the following cut-off dates: 31st March, 30th June, 30th September and 31st December. QAMR shall be prepared and submitted to NIPAC office 10 working days after the cut-off dates. The Quarterly Action Monitoring Reports by the SPOs/PIUs provide the NIPAC office with up to date information on how the implementation of Action is progressing thus enabling the NIPAC office to perform active monitoring of Actions on regular basis.

In particular the Quarterly Action Monitoring Reports: provide regular and updated information on the last developments of the Action; provide information on the progress achieved with regard to purpose of the Action, conditionality, physical progress, results; signal about implementation problems, delays and propose corrective actions; provide information on organizational and staffing issues. The Report is submitted to the NIPAC/NIPAC office by the 10th working day of the month following the quarter concerned.

The Annual Implementation Report of Action Programme will be prepared by the NIPAC office based on Quarterly Monitoring Reports prepared by the SPOs/PIUs and Semi –Annual Monitoring Reports prepared by NIPAC Office, which are inputs provided by SPOs/PIUs for drawing up Annual Implementation Report of Action Programme.

For proper coordination of the reporting requirements, NIPAC Office shall lead the process of preparing of all monitoring reports. In order to ensure timely preparation and high quality of reports, the NIPAC office shall: sets a time-schedule for preparing the annual reports; issue guidelines and instructions to SPOs/PIUs regarding their input for annual reports at Action level; ensures for the quality control of the input, submitted by the SPOs/PIUs; monitor the time-schedule for preparation of annual reports, approval and submission.”

During the performance of audit activities related to requirement 5 (a), we determined that monitoring and reporting activities are not in line with indicators set in SOPEES 2015-2017 and need certain improvements.

PIUs in the MLSW and MoE prepared Quarterly Action Monitoring Reports for Sectoral Operational Programme on Employment, Education and Social Policies 2015-2017 on a regular basis. QAMR, inter alia, provide information on the physical progress achieved by activities

under PIU MLSW monitoring, measured through indicators specified in SOPEES 2015-2017. Information in the aforementioned reports related to achieved progress at the cut off date of the report and the previous cut-off date aren't updated for the most of the indicators and are the same as in reports for previous year (QAMRs from 2021).

Additionally, targets for some indicators in QAMR of PIU MLSW and PIU MoE are not the same as targets determined in the Sectoral Operational programme on Employment, Education and Social policies (SOPEES). For example, target for indicator *"The share of self-employment in total employment"* for Activity 1.1, is not set in QAMR of PIU MLSW as it is defined in the SOPEES. Also, targets for indicators *"The number of educational programmes developed in accordance with the NQF, focusing on student-centered learning and developing 8 key competences"* and *"The number of educational institutions implementing modernized programmes"* under Activity 2.2 as well as target for indicator *"The number of educational programmes modularized for the SEN children/persons with disabilities"* under Activity 2.3, are not set in QAMR of PIU MoE as they are set in the SOPEES.

Furthermore, PIU MSTD is responsible for monitoring technical implementation of Activity 2.4 under Action 2 and monitoring physical progress through output and result indicators against targets set in (SOPEES). In QAMR physical progress of Activity 2.4 PIU in MSTD has been monitoring through two indicators: 1) number of PhDs employed in academic and research organizations and business sector, involved in R&D and 2) percentage of employers who are benefiting from R&D collaboration with academic and research organizations. Third indicator, *"Percentage of start-ups and spin-off companies involved in R&D activities established by PhDs"*, is not being monitored through quarterly reports even though it is result indicator for activity 2.4 presented in the SOPEES. PIU MSTD prepared QAMR for third quarter of the 2022 with the cut-off date 30/09/2022 on 17/11/2022, what is not in line with deadline for preparing and submitting of QAMR prescribed with procedures.

During the desk checks performed and interviews conducted we determined that PIU MHMR, that is responsible for monitoring and reporting about Activity 3.3, prepared QAMR for third quarter of 2022 in line with prescribed procedures with several technical errors that were pointed out to employees of PIU. PIU MHMR was formed by separation of the Ministry of Justice, Human and Minority Rights in two ministries: Ministry of Justice and Ministry of Human and Minority Right in May 2022. During the system audit in 2021 we determined that monitoring activities of PIU MJHMR regarding IPA II 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES) had not been at satisfactory level and had not been in accordance with prescribed procedures. We found that responsible persons from PIU had not prepared and submitted QAMRs during 2021 on a regular basis. Also, we determined that QAMRs haven't been prepared for the first and second quarter of 2022 by former PIU MJHMR.

Therefore, we consider that reports on action level do not provide adequate and complete information regarding IPA II 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES).

Recommendation:

We recommend to PIU MLSW, PIU MoE and PIU MSTD to improve reporting at the action level regarding physical progress of activities under their monitoring. Reporting should be timely and updated with achieved progress of all indicators from SOP, in accordance with prescribed procedures and IPA regulation.

We recommend to PIU MHMR to prepare and submit QAMRs timely and regularly in line with prescribed procedures.

ICFR 4 – INFORMATION AND COMMUNICATION AND

ICFR 5 - MONITORING OF INTERNAL CONTROL FRAMEWORK

➤ Finding No 6: Deficiencies in reporting on programme level

Body/-ies concerned by the finding: NIPAC Office

According to IPA II Implementing Regulation No 447/2014, Article 4, the National IPA Coordinator (NIPAC) shall be the main counterpart of the European Commission for the overall process of strategic planning, coordination of programming, monitoring of implementation, evaluation and reporting of IPA II assistance. Therefore, in line with the IPA II IR, the responsibility for the monitoring of implementation belongs to the NIPAC, who has to set up an adequate monitoring framework under the OS.

According to the Framework Agreement between Montenegro and the European Commission on the arrangements for implementation of Union financial assistance to Montenegro under the Instrument for Pre-accession Assistance (IPA II), the following provisions shall be respected:

Article 58 General reporting requirements to the Commission

“By 15 February of the following financial year, the NIPAC shall provide the Commission with an annual report on the implementation of IPA II assistance. The report shall follow the model attached to the Financing Agreement and shall include in particular:

- (a) involvement of the IPA II beneficiary in programming, monitoring and evaluation, communication and visibility efforts;
- (b) problems encountered in meeting the required conditionalities and in ensuring sustainability, related measures taken/planned, main horizontal problems encountered and mitigating measures taken, problems encountered during implementation of activities;
- (c) information on the indicators set up in the country strategy papers and in the programming documents specified in Section III of this Framework Agreement.”

Also, according to the Manual of Procedures, chapter Programme Action Monitoring, section 3.3 Monitoring and Reporting at Action Level, the following is stipulated:

“The Annual Implementation Report of Action Programme will be prepared by the NIPAC office based on Quarterly Monitoring Reports prepared by the SPOs/PIUs and Semi –Annual Monitoring Reports prepared by NIPAC Office, which are inputs provided by SPOs/PIUs for drawing up Annual Implementation Report of Action Programme.

For proper coordination of the reporting requirements, NIPAC Office shall lead the process of preparing of all monitoring reports. In order to ensure timely preparation and high quality of reports, the NIPAC office shall: sets a time-schedule for preparing the annual reports; issue guidelines and instructions to SPOs/PIUs regarding their input for annual reports at Action level; ensures for the quality control of the input, submitted by the SPOs/PIUs; monitor the time-schedule for preparation of annual reports, approval and submission.”

Analyzing documentation related to requirement 5 (a) On-going and specific monitoring from Internal Control Framework (Annex B to FwA) we identified some deficiencies.

During the interviews conducted with employees of NIPAC office, we were told that quality checks of QAMRs submitted by PIUs are regularly performed, even though we were not presented with proof that quality checks are being performed in line with prescribed procedures, i.e. they didn't fill in the Annex 10 – Quarterly Action Monitoring Report Quality Control Checklist.

The Annual Report on Implementation of IPA II Assistance in Montenegro for 2021 was issued by NIPAC on 15/02/2022 covering the period 01/01/2021-31/12/2021 (Cover letter No: 01-004-908/22). The first technical deficiency is related to the report name because it was stated „ANNUAL IMPLEMENTATION REPORT FOR COUNTRY ACTION PROGRAMMES IN MONTENEGRO SUBMITTED BY THE NATIONAL IPA COORDINATOR“. In the table of content of the report, under chapter Information per sector, only sector Employment, Education and Social policies is not named, although information about this sector are presented in the report.

Additionally, information on the implementation of contracts in the sector of Employment, Education and Social policies related to Action 2, that was in 2021 under responsibility of the Ministry of Education, Science, Culture and Sports, are not presented in the report. Also, in the table with indicator per sector Employment, Education and Social policies eight indicators for Action 2 are presented and PIU MESCS tracked in QAMRs achieved progress of thirteen indicators for Action 2. Moreover, indicators for Activity 3.3 that is under responsibility of PIU MHMR are not even presented in the table with indicators for this sector. Finally, overview at the action level per sector „Education“ doesn't provide information about main achievements and assessment of progress per particular activity.

Therefore, we consider that report on programme level does not provide adequate and complete information regarding IPA II 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES).

Recommendation:

We recommend to NIPAC office to perform quality check of QAMRs submitted by PIUs by filling in the Annex 10 – Quarterly Action Monitoring Report Quality Control Checklist in order to ensure adequate audit trail that prescribed quality checks have been performed.

Furthermore, we recommend to NIPAC to improve quality of Annual Report on Implementation of IPA II Assistance and prepare it on the basis of complete and up to date information for the sector Employment, Education and Social policies.

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

During the conducted system audits in 2022, no findings were found with systemic character.

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

Not applicable.

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

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

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

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

Table 5

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

5. AUDITS OF SAMPLES OF TRANSACTIONS

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

In accordance with the Law on Audit of EU Funds and the Audit Strategy 2022-2024 for the 2015-2017 Sectoral operational programme for Montenegro on Employment, Education and Social policies (SOPEES), the AA of Montenegro, Department for audit of the programs - employment, social policies, education, promotion of gender equality and development of human capacities, conducted an audit of operations in the framework of the 2015-2017 Multi-annual Action programme for Montenegro on Employment, Education and Social policies.

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

Selecting the sample of operations for testing was performed according to the methodology defined by AA's Audit Manual (Annex 6), as well as in accordance with EC Guidance on sampling methods for audit authorities – Programming periods 2007-2013 and 2014-2020 and was performed in accordance with the Audit Strategy 2022 – 2024 for the 2015-2017 Sectoral operational programme for Montenegro on Employment, Education and Social policies (SOPEES).

When performing sampling for the purposes of audit of transactions/operations the Audit Authority may apply following sampling methodologies (in accordance with audit manual and EC guidelines):

- Statistical sampling - Monetary Unit Sampling (MUS) – standard approach;
- Non-statistical sampling - small populations (random selection, non-random selection).

Total amount of new expenditure declared through this DoE is 8.600.356,81 EUR (EU

contribution 6.890.700,79 EUR and IPA II Beneficiary or other third-party contribution 1.709.656,02 EUR). Sampling unit which is used for the Audit of Operations for this year is contract/project. As the overall population consisted of 57 units and it had an insufficient size to be audited through statistical sampling, we have decided to use a non-statistical approach (sampling was made in specialized CAAT tool CaseWare IDEA) with stratification of the high-value item since there was an operation with extremely large expenditure (direct award/grant). Therefore, high-value stratum (Stratum 1) consisted of expenditure for Direct award/grant-Support to Self-Employment in the amount 1.959.165,08 EUR and the remaining population size (Stratum 2) was 56 items (contracts) with the total value of 6.641.191,73 EUR. Additionally, we decided to sample the population using equal probabilities.

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. We applied non-statistical sampling as applicable for small populations.

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 in the framework of the IPA II 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies has been performed on the selected operations for which the expenditure was paid and the costs recognised by the Implementing Agencies CFCU and CPA and declared to the European Commission (EC) in 2022. The Declaration for Expenditure (within the Request for Funds Instalment No.3) was sent to EC on 14th December 2022 (Letter No.05-908/22-192/1).

Total amount of new expenditure declared through this DoE is 8.600.356,81 EUR (EU contribution 6.890.700,79 EUR and IPA II Beneficiary or other third-party contribution 1.709.656,02 EUR). The structure of operations/contracts by type of contract, for which the expenditure had been declared, is the following:

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Population for the Audit of operations 2022							
No	Action	Contract No	Type of contract	Costs recognized (Total)	Costs recognized EU contrib.	Costs recognized National	Costs recognized Private
1	4	CFCU/MNE/079	Service	91,415.00	77,702.75	13,712.25	0.00
2	1	CFCU/MNE/083	Service	130,053.98	110,545.87	19,508.11	0.00
3	4	CFCU/MNE/084	Service	325,440.26	276,624.22	48,816.04	0.00
4	1	CFCU/MNE/085	Service	222,029.32	188,724.92	33,304.40	0.00
5	1	CFCU/MNE/086	Direct award	1,959,165.08	1,665,290.32	293,874.76	0.00
6	2	CFCU/MNE/088	Service	226,338.72	192,387.91	33,950.81	0.00
7	2	CFCU/MNE/089	Service	73,427.46	62,413.34	11,014.12	0.00
8	2	CFCU/MNE/090	Service	569,389.39	483,980.99	85,408.40	0.00
9	2	CFCU/MNE/091	Service	265,226.14	225,442.22	39,783.92	0.00
10	3	CFCU/MNE/092	Service	204,398.08	173,738.36	30,659.72	0.00
11	1	CFCU/MNE/093	Grant	98,614.53	75,440.12	13,312.94	9,861.47
12	1	CFCU/MNE/094	Grant	99,430.50	76,064.33	13,423.12	9,943.05
13	1	CFCU/MNE/095	Grant	165,267.26	123,883.00	21,861.71	19,522.55
14	1	CFCU/MNE/096	Grant	120,378.84	83,484.41	14,732.54	22,161.89
15	1	CFCU/MNE/097	Grant	143,295.10	107,504.17	18,971.32	16,819.61
16	1	CFCU/MNE/098	Grant	99,222.18	75,904.97	13,394.99	9,922.22
17	1	CFCU/MNE/099	Grant	126,191.17	95,347.95	16,826.11	14,017.11
18	1	CFCU/MNE/100	Grant	100,100.09	73,900.15	13,041.20	13,158.74
19	1	CFCU/MNE/101	Grant	87,690.67	67,080.08	11,837.66	8,772.93
20	3	CFCU/MNE/107	Grant	44,580.17	35,998.49	6,352.68	2,229.01
21	3	CFCU/MNE/108	Grant	172,082.94	105,664.86	18,646.74	47,771.34
22	3	CFCU/MNE/109	Grant	51,664.71	41,704.48	7,359.61	2,600.62
23	3	CFCU/MNE/110	Grant	69,088.34	55,548.06	9,802.60	3,737.68
24	3	CFCU/MNE/111	Grant	46,299.26	27,547.37	4,861.30	13,890.59
25	3	CFCU/MNE/112	Grant	195,630.95	157,972.09	27,877.42	9,781.44
26	3	CFCU/MNE/113	Grant	82,864.38	63,391.25	11,186.69	8,286.44
27	3	CFCU/MNE/114	Grant	108,208.06	66,462.47	11,728.67	30,016.92
28	3	CFCU/MNE/115	Grant	185,685.82	142,045.24	25,066.81	18,573.77
29	3	CFCU/MNE/116	Grant	236,785.61	164,435.78	29,018.08	43,331.75
30	3	CFCU/MNE/117	Grant	98,139.87	79,247.95	13,984.93	4,906.99
31	3	CFCU/MNE/118	Grant	118,378.12	95,590.33	16,868.87	5,918.92
32	3	CFCU/MNE/119	Grant	65,228.16	47,127.35	8,316.59	9,784.22
33	3	CFCU/MNE/120	Grant	175,042.19	141,346.57	24,943.51	8,752.11
34	3	CFCU/MNE/121	Grant	17,158.94	13,855.09	2,445.01	858.84
35	3	CFCU/MNE/122	Grant	125,823.25	84,887.10	14,980.08	25,956.07
36	3	CFCU/MNE/123	Grant	51,268.01	40,873.62	7,212.99	3,181.40
37	2	CFCU/MNE/128	Grant	44,084.11	32,600.20	5,752.98	5,730.93
38	2	CFCU/MNE/129	Grant	45,228.23	30,686.03	5,415.18	9,127.02
39	2	CFCU/MNE/130	Grant	38,345.13	29,020.24	5,121.22	4,203.68
40	2	CFCU/MNE/131	Grant	34,590.77	26,446.22	4,666.98	3,477.57
41	2	CFCU/MNE/132	Grant	74,887.39	43,082.43	7,602.78	24,202.18
42	2	CFCU/MNE/133	Grant	73,311.89	54,792.72	9,669.30	8,849.86
43	2	CFCU/MNE/134	Grant	48,468.96	37,078.74	6,543.32	4,846.90
44	2	CFCU/MNE/135	Grant	35,625.96	24,181.28	4,267.28	7,177.39
45	2	CFCU/MNE/136	Grant	43,943.76	31,749.37	5,602.83	6,591.56
46	2	CFCU/MNE/138	Grant	9,452.28	7,030.17	1,240.62	1,181.49
47	2	CFCU/MNE/139	Grant	68,478.12	52,361.52	9,240.27	6,876.33
48	2	CFCU/MNE/140	Grant	64,336.30	49,217.27	8,685.41	6,433.62
49	3	CFCU/MNE/155	Grant	267,049.40	199,590.56	35,221.86	32,236.98
50	3	CFCU/MNE/166	Grant	78,379.26	59,009.04	10,413.36	8,956.86
51	4	CFCU/MNE/169	Service	14,890.00	12,656.50	2,233.50	0.00
52	2	CFCU/MNE/170	Supply	34,149.00	29,026.65	5,122.35	0.00
53	2	CFCU/MNE/171	Supply	213,448.36	181,431.11	32,017.25	0.00
54	2	CFCU/MNE/172	Supply	34,159.67	29,035.72	5,123.95	0.00
55	2	CFCU/MNE/175	Supply	140,103.85	119,088.27	21,015.58	0.00
56	2	PWA/MNE/IPAII/SOPEES/SER/01-22/1	Service	16,820.00	14,297.02	2,522.99	0.00
57	2	PWA/MNE/IPAII/SOPEES/WKS/01-908/21-4018/1	Works	269,601.82	229,161.55	40,440.27	0.00
TOTAL:				8,600,356.81	6,890,700.79	1,216,005.99	493,650.03

Table 6

We applied non-statistical sampling (sampling was made in specialized CAAT tool CaseWare IDEA) with stratification of the high-value item since there was an operation with extremely large expenditure (direct award/grant). Therefore, high-value stratum (Stratum 1) consisted of expenditure for Direct award/grant-Support to Self-Employment in the amount 1.959.165,08 EUR and the remaining population size (Stratum 2) was 56 items (contracts) with the total value of 6.641.191,73 EUR. Additionally, we decided to sample the population using equal probabilities. The total amount in stratum 1 is related to costs for 304 sub-contracts (89 within the first public call and 215 through the second call) which were signed between Employment Agency of Montenegro and unemployed persons (sub-beneficiaries). We applied non-statistical sampling with random selection of items in Stratum 1 and chose 21 sub-contracts (6 from the first call and 15 from the second call) in the overall amount of 138.886,59 EUR. When it comes to Stratum 2, we decided to randomly select 6 units (contracts) in the overall amount of 837.991,25 EUR.

General information about the audited Operations/contracts is presented in the following table:

General information	
Operational Programme	<i>2015-2017 Multi-annual Action programme for Montenegro on Employment, Education and Social policies</i>
Reference No (CCI number)	<i>C(2015)9051</i>
Actions	<i>Action 1. Improving the labour market and increasing employability;</i> <i>Action 2. Enhancing the education system;</i> <i>Action 3. Improving Social Inclusion and Social and Child Protection System</i>
Activities	<i>Activity 1.1 Support to self-employment;</i> <i>Activity 1.2 Further development of the local employment initiatives in Montenegro</i> <i>Activity 2.3 Development and adjustment of the educational programmes, and provision of material resources for the implementation of programmes for the SEN - Special Education Needs children, persons with disabilities and members of marginalised groups, especially members of RE population and development and implementation of an action plan for removing architectural barriers in institutions at all levels of education</i> <i>Activity 3.2 Provision of social and child protection services</i>
Body responsible for the Action and Project Implementation Unit	<i>PIU for Activity 1.1 - Ministry of Labour and Social Welfare (part of former Ministry of Economic Development);</i> <i>PIU for Activity 1.2 - Ministry of Labour and Social Welfare (part of former Ministry of Economic Development);</i> <i>PIU for Activity 2.3 - Ministry of Education (part of former</i>

	Ministry of Education, Science, Culture and Sports); PIU for Activity 3.2 - Ministry of Labour and Social Welfare (part of former Ministry of Finance and Social Welfare);
Implementing Agency(ies)	Implementing Agency 1: Ministry of Finance – Directorate for Finance and Contracting of the EU Assistance Funds (CFCU); Implementing Agency 2: Capital Projects Administration (CPA).
End recipients of assistance	For Action 1: <i>Unemployed persons, municipalities, Employment Agency of Montenegro (EAM), non-governmental organisations, education and training providers, public institutions, social partners, regional development agencies, employers, other relevant actors.</i> For Action 2: <i>Ministry of Education, Bureau for Education Services, Examination Centre, University of Montenegro, Schools</i> For Action 3: <i>Ministry of Labour and Social Welfare, Agency for Social and Child Protection, Social Inspection, centres for social work, local self-governments, social and child protection institutions, non-governmental organisations (NGO), private service providers and individuals and other service providers as envisaged by legal framework as potential/actual grant beneficiaries, as well as the beneficiaries of social services.</i>
Operations/contracts	Activity 1.1 - Direct award: Support to Self-Employment (CFCU/MNE/086); Activity 1.1 - Grant contract: Improved access to the labour market (CFCU/MNE/095); Activity 1.2 – Service contract: Further Development of the Local Employment Initiatives in Montenegro (CFCU/MNE/085); Activity 2.3 - Supply contract: Purchase of teaching aids and IT (CFCU/MNE/175); Activity 2.3 - Service contract: Preparation of Main Design and Supervision of works for Adaptation of the school buildings for accessibility and movement of disable persons and persons with mobility difficulties, Montenegro (PWA/MNE/IPAII/SOPEES/SER/01-22/1); Activity 3.2 - Grant contract: Support services for life in community (CFCU/MNE/112); Activity 3.2 - Grant contract: Day Care Centre for Persons with Dement (CFCU/MNE/117);
Declared amount (total)	Declared amount: 8.600.356,81 € Audited amount: 976.877,84 € (11,35 % of declared amount)
Reference year	2022

Table 7

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

Not applicable. There were no negative items.

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

Detailed objective, scope and coverage of the audit of operations were determined at the commencement of the audit of operations, after obtaining all necessary information, i.e. total expenditure declared to the Commission as well as the operations and projects to which declared expenditure relate. Selecting the sample of operations for testing was performed according to the methodology defined by EC Guidance³ on sampling methods for audit authorities and Manual of Procedures of AA. Sampling unit which was used for this Audit of operations is contract/project.

Deputy NAO submitted to the European Commission Declaration of Expenditure (within the Request for Funds Instalment No.3) on 14th December 2022 (Letter No. 05-908/22-192/1) in cumulative amount of 10.478.147,07 EUR (EU contribution 8.462.828,57 EUR and IPA II Beneficiary or other third-party contribution 2.015.318,50 EUR). This is the second DoE submitted to EC in relation to SOPEES 2015-2017 and it included new expenditure in the total amount of 8.600.356,81 EUR (EU contribution 6.890.700,79 EUR and IPA II Beneficiary or other third-party contribution 1.709.656,02 EUR). The total amount of new expenditure is related to 57 operations/contracts for which the expenditure was paid and costs recognised by the Implementing Agencies (CFCU and CPA) with cut-off date 13th December 2022. The structure of operations/contracts by type of contract, for which the expenditure has been declared, is the following: 1 direct award/grant, 11 service contracts, 4 supply contracts, 40 grant contracts and 1 works contract. Selecting the sample of operations for testing is performed according to the methodology defined by EC Guidance⁴ on sampling methods for audit authorities and Manual of Procedures of AA. Sampling unit which is used for this Audit of operations is contract/project. We applied non-statistical sampling (by random selection of items) with stratification of the high-value item since there was an operation with extremely large expenditure (direct award/contract). In order to ensure randomness of the sample and its representativeness, we applied random sampling using specialized CAAT tool CaseWare IDEA. The total population consisted of 57 units (contracts) and amounting 8.600.356,81 EUR in total. The high-value stratum (stratum 1) consisted of expenditure for Direct award/grant-Support to Self-Employment in the amount 1.959.165,08 EUR and the remaining population size (stratum 2) was 56 items (contracts) with the total value of 6.641.191,73 EUR.

The total amount in Stratum 1 is related to costs for 304 sub-grant contracts for self-employment which Employment Agency of Montenegro signed with unemployed persons (sub-grant beneficiaries). Through this DoE, EAM reported (and CFCU approved) expenditure for 89 sub-contracts for self-employment from the first call (published and implemented by EAM) and for

³ EGESIF_16-0014-01 of 20 January 2017 – Guidance on sampling methods for Audit Authorities, Programming periods 2007-2013 and 2014-2020

⁴ EGESIF_16-0014-01 of 20 January 2017 – Guidance on sampling methods for Audit Authorities, Programming periods 2007-2013 and 2014-2020

215 sub-grant contracts for self-employment which were signed and implemented through the second public call. Considering that we decided to apply non-statistical sampling at the level units/contracts constituting the population, we also applied non-statistical sampling with random selection of items/costs/sub-grant contracts in Stratum 1 and chose 21 sub-contracts (6 from the first call and 15 from the second call) which represents 6,90 % of total number of items in Stratum 1. Total amount which we audited within Stratum 1 is 138.886,59 EUR, which represents 7,08 % of total amount of expenditure declared within Stratum 1.

From the remaining population (Stratum 2), we selected sample of 6 operations/contracts in the overall amount of 837.991,25 EUR which represents 10,71% of the total number of units (56) in Stratum 2 and 12,62% of total amount of expenditure declared within this stratum (6.641.191,73 EUR). All of 6 selected sample units were audited 100% (there was no sub-sampling at the level of sample unit).

Therefore, for this audit of operations we audited expenditure in the cumulative amount 976.877,84 EUR which represents 11,35 % of the total declared expenditure (8.600.356,81 EUR).

- 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)**

The Declaration for Expenditure (within the Request for Funds Instalment No.3) sent to EC on 14th December 2022 was second DoE submitted to EC in relation to SOPEES 2015-2017 and it included new expenditure in the total amount of 8.600.356,81 EUR (EU contribution 6.890.700,79 EUR and IPA II Beneficiary or other third-party contribution 1.709.656,02 EUR). The total amount of new expenditure is related to 57 operations/contracts for which the expenditure was paid and costs recognised by the Implementing Agencies (CFCU and CPA) with cut-off date 13th December 2022. We selected sample of 7 operations in overall amount of 976.877,84 EUR. The total amount in Stratum 1 is related to costs for 304 sub-grant contracts for self-employment which Employment Agency of Montenegro signed with unemployed persons (sub-grant beneficiaries). From the remaining population (Stratum 2), we selected sample of 6 operations/contracts.

Eligible expenditure declared to the EC during 2021 (EUR)	Population size (No of sampling units in the population)	The amount of expenditure audited (EUR)	The percentage of expenditure audited	Sample size (No of sampling units actually audited)	The percentage of sampling units audited	Amount of irregular expenditure in random sample (EUR)
Stratum 1 1.959.165,08	304	138.886,59	7,08%	21	6,90%	N/A ⁵

⁵ Due to limitation of scope, the AA was not in a position to completely perform audit work and determine the exact amount of irregular expenditure in Stratum 1

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Stratum 2 6.641.191,73	56	837.991,25	12,62%	6	10,71%	3.207,60
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Table 8

Details about operations (random units) we have selected within both strata, are given in the table below:

Action/ Activity/ Operation	Total expenditure declared (EUR)	Union contribution (EUR)	IPA II beneficiary or other third- party contribution (EUR)	Expenditur e audited (EUR)	Audited / Declared expenditur e (%)
Action 1 Activity 1.1 <u>Operation</u> M1.0.1.01.01.C01 (Direct award) CFCU/MNE/086	1.959.165,08	1.665.290,32	293.874,76	138.886,59	7,08%
Action 1 Activity 1.2 <u>Operation</u> M1.0.1.02.01.C01 (Service contract) CFCU/MNE/085	222.029,32	188.724,92	33.304,40	222.029,32	100%
Action 1 Activity 1.1 <u>Operation</u> M1.0.1.01.02.C03 (Grant contract) CFCU/MNE/095	165.267,26	123.883,00	41.384,26 (Nat 21.861,71+ private 19.522,55)	165.267,26	100%
Action 3 Activity 3.2 <u>Operation</u> M1.0.3.02.01.C02 (Grant contract) CFCU/MNE/112	195.630,95	157.972,09	37.658,86 (Nat 27.877,42 + private 9.781,44)	195.630,95	100%
Action 3 Activity 3.2 <u>Operation</u> M1.0.3.02.01.C12 (Grant contract) CFCU/MNE/117	98.139,87	79.247,95	18.891,92 (Nat 13.984,93 + private 4.906,99)	98.139,87	100%

Action 2 Activity 2.3 Operation M1.0.2.03.01.C01 (Supply contract) CFCU/MNE/175	140.103,85	119.088,27	21.015,58	140.103,85	100%
Action 2 Activity 2.3 <u>Operation</u> M1.2.2.3.01D01 (Service contract) PWA/MNE/IPAI/S OPEES/SER/01-22/1	16.820,00	14.297,00	2.523,00	16.820,00	100%
Total	2.797.156,33	2.348.503,55	448.652,78	976.877,84	34,92%

Table 9

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

During the audit, we have identified and documented audit findings for which action should be taken to ensure full compliance, but have no financial consequences - System findings and findings which have financial impact (transaction findings).

➤ SYSTEM FINDING

Finding No: 1	Operation: M1.0.2.03.01.C01- Supply Contract
Body/-ies concerned by the finding:	Ministry of Education (MoE)
Project name and number:	
Purchase of teaching aids and IT equipment for schools in Montenegro	
No. CFCU/MNE/175	
Total amount claimed: 140.103,85 €	Amount audited: 140.103,85€ (100% of the total EC contribution: 119.088,27 € amount claimed for the operation)
National contribution: 21.015.58 €	
Finding: Inadequate recording of assets	
The Law on State-Owned Property stipulates the obligation of keeping records of the state-owned property as well as obligation of establishing single records of the state-owned property. The authorities shall submit data on movable and immovable items to the authority in charge of property operations in electronic form, for the purpose of keeping Real Estate Registry, i.e. accounting records of movable items, and the same authorities shall submit by the end of February of the current year for the previous year.	

The subject of supply contract CFCU/MNE/175 "Purchase of teaching aids and IT equipment for schools in Montenegro" was equipping 40 schools in Montenegro with 19 identical items. By reviewing and analysing documentation and during the fieldwork related to supply contract CFCU/MNE/175, we determined that equipment, which was delivered in December 2021, was not adequately recorded/listed into the schools' registers because it doesn't have assigned registration numbers and purchase value in line with Annex IV Budget breakdown of this contract.

Conclusion (including Financial consequences, if applicable):

All equipment had to be listed in line with provisions of relevant regulations and inventory lists submitted to the property administration within the prescribed deadlines. Inadequate and incomplete inventory register could lead to the potential risk of losing property without the possibility of establishing the responsibility of that loss.

Recommendation:

We recommend that all equipment purchased for forty schools through supply contract CFCU/MNE/175 be properly listed and entered into the property register of schools with purchase values and registration numbers assigned in order to ensure that the exact location and user of each item is easy to identify.

Level of importance: Intermediate

Implementation deadline: As soon as possible

Management response:

PIU MoE reply: Recommendation accepted.

Ministry of Education will repeat information on values of all items that were procured so that schools are able to enlist it into the property register. Previous attempt was most probably affected by the fact that our official email was not operating properly due to the cyber-attack. Since we now have fully functional email addresses the relevant information will be shared with all 40 schools.

Final conclusion:

The implementation of recommendation will be monitored.

➤ TRANSACTION FINDINGS

Finding No: 1	Operation: M1.0.1.01.01.C01 – Direct Grant Contract
Body/-ies concerned by the finding:	CFCU (IA), EAM, NF
Project name and number: Support to Self-Employment No. CFCU/MNE/086	
Total amount claimed: 1.959.165,08€ EC contribution: 1.665.290,32€	Amount audited: 138.886,59 (7,08 % of the total amount claimed for the operation)

National contribution: 293.874,76€

Ineligible expenditure⁶: 3.746,25 €

Finding: Ineligible expenditure related to VAT

According to the Article 28 of the Framework agreement,

„ Except where otherwise provided for in a Sectoral Agreement or a Financing Agreement, **taxes, customs and import duties and levies and/or charges having equivalent effect are not eligible under IPA II**. This rule shall also apply to co-financing provided by the IPA II beneficiary and recipients of IPA II assistance.”

Special Conditions of Direct Grant contract CFCU/MNE/086, signed between IA/CFCU and EAM, prescribe the following:

„...Article 4.3 In addition to the Narrative and Financial Report, prescribed in the Article 2 of the General Conditions, that shall be produced to support the Payment request, the Beneficiary shall prepare and submit Progress Narrative and Financial Reports.... Progress Narrative and Financial Reports, together **with the detailed breakdown of expenditure and supporting documents**, in accordance with the Article 15.7 of Annex II, covering each 6 (six) months of the period of implementation ...

...7.1.2 VAT/ taxes, duties and charges are not eligible for the activities as described in Annex I.

7.1.3 In addition to the provisions of the Article 14.9 of Annex II, the following costs shall not be considered eligible:

...

- Taxes, customs and import duties and levies and/or charges having equivalent effect... “

The EAM was awarded a direct grant contract by the CFCU as Contracting Authority, assuming the role of Direct Grant Beneficiary. Direct Grant contract CFCU/MNE/086 was awarded with a purpose to finance the implementation of the action entitled “Support to Self-Employment” and it included three cycles of awarding of sub-grants to unemployed persons through three public calls over the 3-year period. After each public call the Central Committee, established by the EAM, created the final ranking list of candidates whose applications were approved for awarding of grants.

Successful applicants signed a sub-grant contracts with the EAM in which, inter alia, was stated that VAT is eligible cost for those beneficiaries who are not in VAT system, what means that beneficiaries cannot reclaim VAT. This provision is not in line with Article 7.1.2 of Special Conditions.

During the fieldwork and analyzing the documentation, we determined that VAT was accepted by EAM (and later by CFCU) as eligible cost of the sub-grant beneficiaries. In relation to this Direct Grant Contract, CA approved as cost recognized the total amount of 1.959.165,08 EUR which was reported by the EAM as follows:

- within 2nd Narrative and 1st Financial Progress Report, covering the period from 3 March 2020 until 2 September 2020, the amount of 557.428,24 EUR (WA issued on 1st July 2021);

⁶ Due to limitation of scope described in section 1.3.4 of this report, amount of ineligible expenditure is just preliminary but not definitive. Presented amount of ineligible expenditure is related just to one part of total declared amount on which we have been able to carry out all audit activities

- through 3rd Narrative and 2nd Financial Progress Report, covering the period from 3 September 2020 until 2 March 2021, the amount of 1.299.455,18 EUR (WA issued on 1st July 2021) and
- within 4th Narrative and 3rd Financial Progress Report, covering the period from 3 March 2021 until 2 September 2021, the amount of 102.281,67 EUR (WA issued on 12th September 2022).

We determined that for the 1st Financial Progress Report and 2nd Financial Progress Report, CFCU issued written approvals and recognized costs on the basis of incomplete documentation and for the amounts of advance payments which EAM paid to sub-grant beneficiaries within the first and second public calls. Thus, at the moment of issuing these 2 WAs, amounts which EAM reported to CFCU were not related to costs which had been incurred, accepted and supported with relevant documents, i.e. did not satisfy all conditions to be treated as recognized costs. Written Approval for 3rd Financial Progress Report was issued in accordance with relevant rules, i.e. for recognized costs. However, until the moment of submission of Declaration of Expenditure (14th Dec 2022) to the EC, all costs related to previously mentioned amounts, i.e. to the total amount declared for this direct grant contract, should have been incurred, accepted, paid and supported with relevant documents. Taking this into account and beside the fact that CFCU issued 2 WAs improperly and against the rules, we performed audit activities on total declared amount in order to obtain reasonable assurance that these costs are legal and regular.

During the fieldwork, we were presented available documentation regarding aforementioned interim reports and related costs. However, presented documentation was incomplete even at the moment of performance of audit of operations.

Namely, within the first public call EAM signed 93 sub-grant contracts and made advance payments. However, 89 sub-grant beneficiaries implemented their projects in line with signed contracts while 4 sub-grant contracts have not been implemented and for these projects' recoveries had been executed. For all of 89 implemented sub-grant contracts within the 1st call we were presented precise specification of costs (in total amount of 612.072,90 EUR) which were accepted by EAM and then approved/recognised by CFCU.

However, we were not provided with appropriate evidence, i.e. precise specification of type of costs per each sub-grant contract implemented within the 2nd public call and which EAM accepted and reported to CFCU. Through this public call 215 sub-grant contracts were signed and for all of them costs reported. Therefore, for implemented sub-grant contracts CFCU declared recognized costs (through DoE) without having appropriate supporting table (specification) with precisely identified costs which had been incurred within the implementation of these sub-grant contracts.

We were presented supporting documentation (such as invoices, contracts, payrolls, etc.) for sub-grant contract which we selected in the sample and we found that invoices, which were reported by sub-grant beneficiaries, contained VAT. According to the aforementioned provisions of Framework agreement and Special Conditions of Direct Grant contract CFCU/MNE/086, VAT is not eligible cost.

When it comes to costs declared in relation to 89 sub-grant contracts which were implemented within the 1st public call and on the basis of audit work performed on selected sample of 6 sub-grant contracts, we determined within sampled contracts that CFCU reported VAT as recognized cost in total amount of 3.746,25 EUR.

However, it was not possible to precisely identify amount of VAT that was recognized in selected sample of 15 sub-grant contracts implemented within the 2nd public call because the amount which was reported by EAM did not match the amount which we got by adding the individual amounts from presented supporting documents. Thus, based on documentation obtained and limited audit activities that we performed because of lack of appropriate supporting table

(specification) with precisely identified costs, we couldn't determine the exact amount of VAT included in expenditures which were declared for 15 sampled sub-grant contracts.

Conclusion (including Financial consequences, if applicable):

CFCU issued written approvals and recognized costs on the basis of incomplete documentation and for the amounts of advance payments which EAM paid to sub-grant beneficiaries within the first and second public calls. At the moment of issuing these 2 WAs, amounts which EAM reported to CFCU were not related to costs which had been incurred, accepted and supported with relevant documents, i.e. did not satisfy all conditions to be treated as recognized costs.

Bearing in mind previously described, i.e. that recognized and declared costs within Direct Grant Contract included VAT, we consider this cost ineligible for financing from the Programme. Based on documentation obtained, we couldn't determine exact amount of VAT included in the recognized costs for selected sub-grant contracts within the 2nd public call, so we had limitation in determining the total amount of reported/declared VAT, i.e. total amount of ineligible costs.

Recommendation:

We recommend CFCU to strongly respect the provisions of relevant regulation and issue written approvals only for costs which have been actually incurred, accepted, paid and supported with appropriate documentation.

We recommend to CFCU, in coordination with EAM, to exclude VAT from all costs which were approved and declared within Direct Grant Contract CFCU/MNE/086 and, in line with this, to NF to correct the amount of reported recognised costs in the next Declaration of Expenditure.

Level of importance: Major

Implementation deadline: submission of next Declaration of expenditure

Management response:

IA/CFCU reply: Recommendation partially accepted.

When it comes to the expenditures reported by the EAM and approved by CFCU as cost recognized the total amount of 1.959.165,08 EUR, we give the following explanation:

While approving i.e. recognizing reported costs, CFCU referred to the General Conditions of the grant contract that stipulate that the costs relating to services and works regarding activities performed during the implementation period are considered eligible expenditures. *The advance payments to these contractors are paid based on contracts signed and/or advance invoices provided and they are real expenditures genuinely borne by the grantee.* From the advance paid by the CFCU, grantee is incurring expenditures for the activities initiated under the grant contract in the specific time period. The payments to the service providers/suppliers are expenditures incurred in this sense as these costs are real and generated an obligation to be paid by the grant beneficiary and have been recorded in the respective accounting records.

Moreover, the EC Companion for implementation of grant contracts says:

*"To be considered eligible, costs must be actually incurred by the beneficiaries, and **must have generated a debt to be paid directly by an entity (signature of contract between the ESA and the grantees generates debt)**, which is a party to the contract with the contracting authority (i.e. the coordinator or a beneficiary)."*

Furthermore, bearing in mind that reporting period stated in the SC covers each 6 (six) months of the period of implementation, but Calls by EAM are launched yearly, and doesn't match up with the reporting period, and that EAM at the moment of reporting didn't completed 2nd Call entirely, CFCU stated in Written approval that even though the reported amount with the above

mentioned Financial Reports were approved, the eligibility of costs could be re-assessed until completion of the Direct Award Contract, based on the further verification controls by the CFCU (CA).

AA stated that until the moment of submission of Declaration of Expenditure (14th Dec 2022) to the EC, all costs related to previously mentioned amounts, i.e. to the total amount declared for this direct grant contract, should have been incurred, accepted, paid and supported with relevant documents. Nevertheless, in spite of that, EAM submitted Expenditure verification report for first two Calls, and based on the reports, real costs incurred and recognized by EAM are even more than declared in the Declaration of Expenditure (14th Dec 2022).

In conclusion, it should be noted that direct grant is specific type of contract and in practise its implementation was novelty for all parties involved. At the latest by final report CFCU, as a Contracting Authority, will perform on-the-spot and administrative check and detailed verification of expenditures in order to make final decision on total costs recognized under direct grant contract, considering all relevant rules, procedures and recommendations.

Regarding ineligible expenditure related to VAT, at the moment of approving reports, CFCU performed its work in accordance with the interpretations of relevant provisions regarding VAT. However, upon opening discussion with AA regarding VAT under direct grant contract, CFCU initiated written communication with EUD in order to clarify issue on VAT eligibility and EUD provided clarifications. In conclusion, detailed table, with information on all grantees, amount of grants and specifically VAT cost under each grant should be prepared in order to calculate total amount of VAT. At the latest with the final Written approval, amount of cost recognized at the level of direct grant contract will be verified by the CFCU, specially taking into account VAT as non-eligible cost.

Final conclusion:

We would like to point out again that at the moment of issuing a mentioned Written approvals payment has been made but costs have not been incurred and supported with relevant documents. Written approvals can be issued only for costs which have been actually incurred, accepted, paid and supported with appropriate documentation. If all these requirements are not fulfilled, costs cannot be recognized. Signature of contracts between the EAM and the grantees generates debt, but cannot be considered as incurred cost until the contracted obligation is fulfilled. CFCU issued written approval for the 1st Financial Progress Report and 2nd Financial Progress Report and recognized costs on the basis of incomplete documentation and for the amounts of advance payments which EAM paid to sub-grant beneficiaries within the first and second public calls. Undoubtedly, expenditure verification reports for 1st and 2nd call verified the total amount of costs even more than declared for Direct grant contract CFCU/MNE/86 in the Declaration of Expenditure (14th Dec 2022). Bearing in mind this we maintain our opinion and we will monitor if recommendation regarding issuing written approvals is respected in the next Declaration of Expenditure.

Regarding ineligible expenditure related to VAT, implementation of recommendation will be monitored.

Finding No: 2

Operation: M1.0.2.03.01.C01- Supply Contract

Body/-ies concerned by the finding: CFCU(IA), Ministry of Education (MoE)

Project name and number:

Purchase of teaching aids and IT equipment for schools in Montenegro

No. CFCU/MNE/175**Total amount claimed:** 140.103,85 €**EC contribution:** 119.088,27 €**National contribution:** 21.015,58 €**Amount audited:** 140.103,85€ (100% of the total amount claimed for the operation)**Ineligible expenditure:** 3.207,60 €**Finding: Inadequate calculation of liquidated damages**

According to the Article 21.1 of the Annex I General Conditions of the Supply Contract for European Union external action No CFCU/MNE/175:

“If the contractor fails to deliver any or all of the goods or perform the services within the period of implementation of the tasks specified in the contract, the contracting authority shall, without formal notice and without prejudice to its other remedies under the contract, be entitled to liquidated damages for every day, or part thereof, which shall elapse between the end of the period of implementation of the tasks, or extended period of implementation of the tasks under article 20, and the actual date of completion. The daily rate of liquidated damages is 5/1000 of the value of the undelivered supplies to a maximum of 15% of the total contract price.”

Analysing documentation related to supply contract CFCU/MNE/175, we determined that during the first OTSV, that took place on 18th, 19th and 20th January 2022, IA visited 13 out of 40 schools to which the equipment was delivered. NAO approved on 13th January exception request for rationalization of OTSV procedures for this supply contract and in accordance with this IA visited 13 out of 40 schools. After the first OTSV, IA established numerous deficiencies and couldn't issue Provisional Acceptance Certificate.

The second OTSV was performed on 14th, 15th and 16th March 2022 with purpose to determine if the findings from previous OTSV had been eliminated. IA issued Administrative Order No. 2 on 11th February 2022, which eliminated some findings from the first OTSV that were general for all 13 visited schools and for the remaining 3 general findings calculated liquidated damages for 13 visited schools from the end of implementation period to second OTSV – 33 calendar days (11th February – 16th March).

Bearing in mind that findings for procurement items, listed under number 6, 7 and 15 in the supply contract CFCU/MNE/175, were the same for all 13 visited schools, we can conclude that IA had to calculate liquidated damages for remaining 27 schools to which the equipment was delivered as it represented identical sets of items for every school. Value of these 3 items is 720,00 EUR, and multiplied with number of days, number of remaining schools and with the daily rate of liquidated damages, we can determine that amount of 3.207,60 EUR is ineligible.

Conclusion (including Financial consequences, if applicable):

The total amount of payments made regarding supply contract CFCU/MNE/175 was greater than it should have been, because liquidated damages were calculated for 13 visited schools and not for remaining 27 school to which the identical equipment was delivered. Therefore, the amount of 3.207,60 € is considered ineligible.

Recommendation:

The expenditure in the overall amount of 3.207,60 EUR (EU contribution 2.726,46 EUR and national contribution 484,14 EUR) is considered ineligible for being financed from the Programme and should be recovered.

Level of importance: Major

Implementation deadline: II 2023

Management response:

IA/CFCU reply: Recommendation partially accepted.

As already mentioned, NAO approved exception request for rationalization of OTSV procedures for this supply contract. Therefore, the IA was obliged to visit 13 out of 40 schools, which was done. Hence, CFCU complied prescribed procedure related to OTSV.

The exception request form states that: *“Evidence of the supply, delivery, installation, putting into operation, inspection, testing and warranty services of the teaching aids and IT equipment for the remaining schools, which will not be visited, will be obtained by the responsible officers in the Ministry of Education, Science, Culture and Sports, who will ensure the acquisition of all necessary supporting documentation along with photographs, which will confirm the fulfilment of all provisions of the signed contract, and especially in connection with this contractual obligation.”*

Therefore, when the responsible IA officers performed the first OTSV they found that several items could not be accepted for various reasons. Specifically, in 13 schools visited, it was determined that:

- Item 6 - anReader software with HASAP licence is not installed;
- Item 7 - Colour Ink Tank CISS Printer with compatible waste ink tank has not been tested;
- Item 15 - Laminating machine - not tested and installed.

According to the approved exception, the PIU was responsible for verifying the equipment in all 40 schools, but CFCU never received information from the responsible officer of the PIU or the schools (as the final beneficiary) that some of the above items were not functional in the remaining 27 schools. Therefore, CFCU complied all the procedures defined in contract, MoP and approved exception.

However, OTSV will be performed in all 40 schools before issuing Final Acceptance Certificate in order to check that the equipment is installed and in place. According to the Article 34.1 of the General Conditions *“The final acceptance certificate shall be issued by the project manager within 30 days after the expiration of the warranty period or as soon as any repairs ordered under Article 32 have been completed to the satisfaction of the project manager.”*. The CFCU contract managers and financial controllers, along with the PIU staff (and potential IT expert if PIU does not have enough technical expertise) will perform OTSV during April 2023 since the Provisional Acceptance Certificate is issued on 1st April 2022.

Final conclusion:

As already mentioned, NAO approved exception request for rationalization of OTSV procedures for this supply contract. Therefore, the IA visited 13 out of 40 schools. However, the IA haven't had a procedure for what to do with delays in implementation in visited 13 schools. In that moment there were two solutions - projection on 40 schools or visiting all 40 schools. Bearing in mind that liquidated damages for late delivery was calculated by IA just for 13 schools we projected that on remaining 27 school to which the identical equipment was delivered.

The IA suggestion to visit 40 schools at the end of the guarantee period cannot correct an omission that had been made before the Provisional Acceptance Certificate was issued, although those visits can ensure that all the equipment is functional before the expiration of the warranty period.

We stand by given recommendation and we will monitor the implementation.

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 conducting the audits of operations an irregularities with direct financial impact were identified. The audit encompassed the expenditure amounting to 976.877,84 EUR which represents 11,35 % of the total declared expenditure (8.600.356,81 EUR). During the audit we identified an error in Stratum 2 in the amount of 3.207,60 EUR and in Stratum 1 the error, regarding ineligible VAT, was determined in the amount of 3.746,25 EUR but this error is related just to one part of total declared amount in Stratum 1 on which we have been able to carry out all audit activities.

However, during the Audit of operations we were not able to make conclusion and express an audit opinion on legality and regularity of total amount of new recognized costs (8.600.356,81 EUR) which were declared in the Declaration of Expenditure within the Request for Funds Instalment No.3, with cut-off date on 13th December 2022. The main reason for this is related to Direct Grant Contract - Support to Self-Employment (CFCU/MNE/086) and the fact that, for this contract, CFCU (IA) used to report advance payments as costs recognized and didn't have relevant, concrete and complete overview of costs incurred, accepted and declared for this direct grant contract. Due to this limitation, the AA was not able to completely carry out audit of operations and confirm the legality and regularity of declared expenditures regarding Direct Grant Contract. Therefore, we express limitation to identified errors and estimated error rates.

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

In accordance with the AA's Audit Manual, in determining the materiality, AA considers the Commission regulation 1828/2006 and EC guidelines. Accordingly, the maximum materiality level (acceptable error) is 2% of the expenditure declared to the EC in the reference period. Taking into account that the Audit of operations has been performed on the selected operations for which the expenditure was declared to the European Commission (EC) through the Declaration for Expenditure (within the Request for Funds Instalment No.3) with the amount of new recognized costs 8.600.356,81 EUR, the materiality level was 172.007,14 EUR (2%). However, due to reasons described in section 5.9 we express limitation to identified errors and estimated error rates so we are not able to compare the total error rate with the set materiality level.

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

Not applicable.

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

Not applicable due to reasons described in sections 5.9 and 5.10.

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. There was no any problem identified to be 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 and due to the limitation of scope previously described, we were not able to make conclusion and express an audit opinion on legality and regularity of total amount of new recognized costs (8.600.356,81 EUR) which were declared in the Declaration of Expenditure within the Request for Funds Instalment No.3, with cut-off date on 13th December 2022. On the basis of audit work performed and available documentation presented by auditees, we have obtained reasonable assurance that the expenditure declared in relation to 56 operations/contracts constituting Stratum 2 in the total amount of 6.641.191,73 EUR, is in all material aspects, legal and regular, except expenditures described in transaction finding no 2 Section 5.8 of this Report with drawing the attention to issues described in system findings no 1 Section 5.8.

When it comes to expenditure related to Stratum 1, i.e. Direct Grant Contract, we are not in a position that we can make a conclusion and we are not able to express an audit opinion on the legality and regularity of declared expenditure.

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

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

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

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

Audit of accounts has been carried out in compliance with the Audit Authority Manual of procedures, Programme Audit Strategy 2023-2025, Framework Agreement and relevant Financing Agreement.

In the context of the Audit of accounts, and for the purposes of issuing the Audit opinion, in order to reach a conclusion on the completeness, accuracy and veracity of the annual financial reports or statements, the Audit Authority verifies whether all accounting information presented in the Annual financial report or statements/annual accounts which are submitted to the Commission is prepared, in all material respects, in accordance with the applicable Financial reporting framework.

For the purpose of expressing the Annual Audit Opinion, in order to conclude that the Annual Financial Report gives a true and fair view, the Audit Authority shall verify that all elements required by models stipulated in Annex IV of the Financing Agreements concerning the 2015-2017 SOPEES, i.e. cumulative amounts presented for the programme, are correctly included in the accounts and correspond to the supporting accounting records maintained by relevant IPA bodies, i.e. in the National Fund Division (NF) and Implementing Agencies - Directorate for Finance and Contracting of the EU Assistance Funds (CFCU) and Capital Projects Administration (CPA).

In line with Article 59(2) of the Framework Agreement concluded between the Government of Montenegro and the European Commission on the arrangements for implementation of Union financial assistance to Montenegro under the Instrument for Pre-accession assistance (IPA II), Deputy NAO submitted Annual Financial Reports for 2022 to EC on 15th February 2023.

This audit of accounts covered Annual Financial Report for 2022 for the 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies.

The summarized data regarding the total amounts contracted, decommitted, disbursed, recognized and open pre-financing as well as recoveries and bank balance, which are submitted in the previously mentioned AFR for 2022, is presented in the table below:

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

Financing Agreement CRIS No 2015/037-895

Programme Budget:

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

Local Contract Activities													Recovery context	Bank Balances (EU contrib)
Total Amount Contracted			Total Amount Committed on closure	Total Amount Disbursed			Total Costs Recognized			Total Open Pre-financing				
4			6	8			10			12				
EU contribution	National contribution	Other sources	Total	EU contribution	National contrib.	Other sources	EU contribution	National contrib.	Other sources	EU contribution	National contrib.	Other sources	No context	Total
14.951.578,43	2.638.513,81	1.125.018,05	0,00	12.757.445,58	2.251.313,94	0,00	8.462.828,57	1.493.440,29	521.878,21	4.294.617,01	757.873,63	0,00	19.658,75	2.558.894,61

Table 12

The Audit Authority, on the basis of the Annual Financial Report for 2022 as well as all required documentation provided to it by the NF and IAs (CFCU and CPA) verified whether:

- the total amounts submitted in the Annual Financial Report (programme budget, contracted amounts, 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, as well as recovery context information on ineligible cost and recoveries) correspond to the amounts entered in the accounting system of NFD and IAs;
- the total amounts submitted in the Annual Financial Report correspond to the amounts in the electronic database for each contract, in relation to the contract reference, contract value including any amendments, contract signature date, contract implementation start and end date, amount total paid by contract, amount related to total pre-financing paid and pre-financing cleared, total costs recognized, amount of recoveries under the contract,
- the bank accounts statement for each programme balances corresponds to the year-end balances in the accounting systems of the NFD;
- reconciliation of the accounting records and cash flow statements of the NFD and CFCU and CPA.
- total amounts of recoveries correspond to supporting documents for recoveries

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

Also, we considered the results from the Audit of operations/transactions conducted on expenditure which NAO/Deputy NAO declared to the EC on 14th December 2022 through the Declaration of Expenditure within the Request for Funds Instalment No.3 (interim) with the aim to confirm the legality and regularity of declared expenditures.

In total, forty-one payments had been executed by IAs (CFCU and CPA) during 2022 out of which 7 pre-financings, 2 further pre-financings, 5 interim and 27 final payments. During mentioned System audits and Audit of operations/transactions we performed checks on 10 payments out of which 4 pre-financings/further pre-financings, 2 interim payments and 4 final payments.

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

Analysing Annual Financial Report for 2022 for 2015-2017 SOPEES and comparing it with data which we obtained by checking and testing documents and accounting records in CFCU and CPA, we determined that the item 4. Total Amount Contracted and 8. Total Amount Disbursed were incorrectly presented in AFR for 2022.

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

➤ ***Finding No 1: Incorrect amount of “ Total Amount Contracted ”***

Annual Financial Report for 2022, item No. 4

Level of Priority: Intermediate

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

According to the Annual Financial Report for 2022 for 2015-2017 SOPEES, which NAO submitted to EC on 15th February 2023, total contracted amount is as follows:

- EU contribution: 14.951.578,43 EUR;
- National contribution: 2.638.513,81 EUR;
- Other sources: 1.125.018,81 EUR.

Based on documentation obtained, desk checks performed and on-the-spot checks in Implementing Agencies, we identified discrepancies between data presented in AFR for 2022 (item No 4) and data from relevant registers and accounting entries in IAs. Namely, examining the Contract Registers in CFCU and CPA as well as relevant accounting records, we determined that total contracted amount by the end of 2022 was the following:

Implementing Agency	Total contracted amount	Total contracted amount	Total contracted amount
	EU contribution	National contribution	Other sources
CFCU	14.240.048,32	2.512.949,67	1.107.970,53
CPA	677.688,95	119.592,17	0,00
TOTAL	14.917.737,27	2.632.541,84	1.107.970,53

Table 2

Therefore, differences between data presented in AFR for 2022 and data determined through testing and examination of relevant documentation in IAs are

- EU contribution: 33.841,16 EUR;
- National contribution: 5.971,97 EUR;
- Other sources: 17.047,74 EUR.

We found that differences regarding EU, National contribution and Other sources are related to grant contract CFCU/MNE/111. Contracted amount had been decreased for 56.860,87 EUR (EU 33.841,16 + 5.971,97 Nat + 17.047,74 Other) by signing Addendum No 1. This Addendum was signed on 18/04/2022 when it entered into force.

Recommendation:

We recommend preparation and presentation data of total contracted amount in Annual Financial Reports on the basis of accounting records of Implementing Agencies/CFCU for the reference period for which Annual Financial Report is issued.

Auditee's response: Recommendation accepted
During preparation of AFR DMS/NFD, in close cooperation and communication with Contracting Authorities, will take into account all recommendations given by the relevant authorities and additional controls for the purpose of verification of data will be taken.
Implementation deadline: Preparation and submission of next AFR
Responsible person/s: NAO
Auditor's final conclusion: We will monitor the implementation of recommendation in the upcoming period.

➤ **Finding No 2: Incorrectly presented “Total Amount Disbursed”**

Annual Financial Report for 2022, item No. 8

Level of Priority: Intermediate

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

According to the Annual Financial Report for 2022 for 2015-2017 SOPEES, Total Amount Disbursed, Total Costs Recognised, Total Open Pre-financing and Recovery context were reported as follows:

Total Amount Disbursed:

- EU contribution: 12.757.445,58 EUR⁷;
- National contribution: 2.251.313,94 EUR⁸;
- Other sources: 0,00 EUR.

Total Costs Recognised:

- EU contribution: 8.462.828.57 EUR;
- National contribution: 1,493.440,29 EUR;
- Other sources: 521.878,21 EUR.

Total Open Pre-financing:

- EU contribution: 4.294.617,01EUR;
- National contribution: 757.873,63 EUR;
- Other sources: 0,00 EUR.

Recovery context:

- Errors: 0,00 EUR;
- Irregularities: 0,00 EUR;
- Fraud: 0,00 EUR;
- No context: 19.658,75 EUR⁹

We performed checks of documentation and accounting records regarding, inter alia, the total amount disbursed and amount of recoveries which were proceed in the previous period ending by 31/12/2022. Analysing the relevant registers and documentation in IAs and NF as well as accounting records and analytical card from bank account, we determined that item No 8 Total Amount Disbursed in AFR for 2022 is not correctly presented. Total Amount Disbursed should be decreased for the amount of recovered funds – 19.223,83 EUR, and consequently amount of Total Cost Recognised or Total Open Pre-financing were not properly reported. EU

⁷ Under disbursed amount-EU contribution, total payments made has been decreased for withdrawn funds (at the end of 2020 it was in amount of 1.497,96 € and at the end of 2021 it was in amount of 211.803,93 €). This specificity is related to direct grant contract (contract No. CFCU/MNE/086) and it's beneficiary Employment Agency of Montenegro. Namely, funds not spent by the end of fiscal year within the state budget are lost and due to that, for payments made under direct grant contract withdrawal of EU part of funds from state budget to relevant IPA account for SOPEES programme is done at the end of 2020 and 2021, in order to prevent losing of funds within state budget. These funds may be transferred to grant beneficiary (EAM) again.

⁸ Under disbursed amount-National contribution, total payments made has been decreased for withdrawn funds (at the end of 2020 it was in amount of 264,34 € and at the end of 2021 it was in amount of 37.377,16 €). Also, see previous explanation

⁹ Under Recovery context is recovery for contract CFCU/MNE/120 which is initiated and is still pending in the amount of 434,92 EUR

contribution was presented more for 16.340,26 € than it should be while National contribution was presented more for 2.883,57 €.

According to aforementioned, we calculated Total Amount Disbursed:

- EU contribution: 12.741,105,33 EUR;
- National contribution: 2.248.430,37 EUR.

This discrepancy between data reported in AFR for 2022 and data resulting from our calculation is related to the amount of recoveries. Namely, by comparing the AFR and the accounting records, we concluded that the recovery was well presented in the AFR for 2022 but it was not properly treated in accounting records of CFCU.

Recommendation:

We recommend to decrease Total Amount Disbursed in AFR for 2023 for the amount of recovered funds until the end of 2023 in order to ensure providing complete and accurate annual financial reports.

We recommend to CFCU to respect all prescribed accounting procedures related to making complete and proper accounting entries regarding recoveries.

Auditee's response: Recommendation accepted

During preparation of AFRs all relevant bodies, coordinated by DMS (NFD), are taking into account ineligible expenditure. Exclusion of certain costs from AFR is not done bearing in mind that at the latest at the end of contract, i.e. upon issuing of final Written approval final decision on costs recognized shall be made and respectively correction shall be done in next declaration/financial report.

Implementation deadline: Preparation and submission of next AFR, continuously

Responsible person/s: NAO; Head of CFCU

Auditor's final conclusion: The implementation of recommendations will be monitored.

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

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

The Audit Authority gained reasonable assurance that amounts of Total Amounts Contracted, Total Amount De-committed on closure, Total Amounts Disbursed, Total Open Pre-financing, Recovery context and Bank Balances (EU contribution) correspond to the amounts specified in the verified documents collected from NF and IAs (CFCU and CPA), except data presented in AFR for 2022 within column 4 – Total Amount Contracted and 8- Total Amount Disbursed. We determined that item 4 - Total Amount Contracted, per sources of financing (EU contribution, National contribution and Other sources), was not correctly reported in AFR because it is not in line with amounts which we found in registers and evidences of IAs and that recoveries were not adequately treated through CFCU's accounting system and accordingly the amount of 8 - Total Amount Disbursed was not correctly presented in AFR for 2022.

However, when it comes to item 10. Total Costs Recognised, we are not able to express an audit opinion on accuracy and completeness of this item because it contains the amount of costs recognized which were reported in relation to Direct Grant Contract and AA was not able to

completely carry out audit of operations and confirm the legality and regularity of declared expenditures regarding Direct Grant Contract.

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

No problems considered to be systemic in nature were identified.

7. FOLLOW-UP OF PREVIOUS YEARS' AUDIT ACTIVITY

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

The objective of the follow-up process is to determine whether:

- the issues rose in the audit have been adequately addressed and
- the audit report recommendations are implemented in a timely manner.

In the period February - March 2023 the Audit Authority regularly performed follow-up of the findings and recommendations given in the course of previous audits.

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

➤ *Follow-up of findings issued within the system audits*

List of findings from the Report on System Audit No. 3011-1-06-19/2 (February, 2020)					
No	Finding	Recommendation	Status as at beginning of March 2022	Priority level	New deadline for implementation
1.	<p>Understaffing and employees' turnover in PWA (Details: See section 4.3)</p> <p>Body/-ies concerned by the finding: PWA/IA</p> <p>Employees are the most significant factor of the management and control system. Timely and effective project implementation depends on the assurance of a sufficient number of employees with the required experience and knowledge.</p> <p>According to the WLA for 2019 (last updated in May</p>	<p>PWA should tackle the issue of employee turnover. Detailed analysis should be done to discover the main reasons of the turnover. A retention policy is essential to retain employees business, particularly the staff of key positions/functions, but also to retain good quality and overloaded staff.</p>	<p>Status: Implemented(preliminary)</p> <p>On the basis of auditee's response, and submitted documentation, we concluded that finding was properly treated and the most of recommended activities had been implemented. The lack of employees is mainly resolved. Employees have attended various training sessions in the previous</p>	N/A	N/A

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	<p>2019), 39 work posts are envisaged and needed within the PWA for implementing IPA activities.</p> <p>During the audit performed, based on insight into enclosed documentation and interviews with PWA staff, we determined the following:</p> <p>A significant outflow of experienced and trained staff in PWA has been identified. Based on insight into staff overviews it is evident that during the 2018 it was a significant employee fluctuation and leaves which was the subject of reservation in Annual Management Declaration for 2018.</p> <p>During 2019, PWA has undertaken certain measures in order to mitigate the risk of lack the employees and has engaged additional staff. However, as this new staff are not employed for an indefinite period and are not fully skilled to perform required tasks, it cannot be considered as a permanent solution. In the period of performing this system audit the total number of employees in Implementing Agency Public Works Administration was 31 out of which 16 on a permanent basis and 15 were engaged by contracts which have a temporary character.</p> <p>Due to fact that almost 50% of current staff are engaged on a temporary basis and taking into account the needs expressed in WLA for 2019 and draft WLA for 2020, it is needed to employ staff in accordance with the Rulebook on internal organization and systematization of the Public Works Administration and ensure that Implementing Agency can perform its functions and tasks in full capacity.</p>	<p>In order to ensure effective functioning of the Implementing Agency, we recommend to PWA to fill vacant work posts in accordance with the Rulebook on internal organization and systematization of the Public Works Administration and needs expressed in Work Load Analysis.</p> <p>Also, we recommend organizing appropriate education and trainings for newly engaged staff in order to train them and enable to perform assigned tasks in the best way.</p>	<p>period. However, certain number of employees is engaged on temporary employment contracts.</p> <p>Bearing in mind all previously mentioned, we determined that CPA mostly undertook proper activities in order to resolve identified deficiencies and we consider recommendations mostly implemented and finding is preliminary closed. However, we will continue to monitor this issue in the upcoming period.</p>		
2.	<p>Strengthening internal audit capacities (Details: See section 4.5)</p> <p>Level of Priority:</p>	<p>In order to ensure performing internal audit in IPA bodies on a regular basis, we recommend strengthening</p>	<p>Status: Implemented(preliminary)</p> <p>Based on auditees' response and obtained documentation, we determined that</p>	N/A	N/A

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<p>Body/-ies concerned by the finding: All IPA bodies</p> <p>According to the Law on management and internal controls in public sector, the Internal Audit Department cannot have less than 3 internal auditors with the Head of the Internal Audit Department.</p> <p>Auditing the function of IAD in all IPA bodies we found that number of staff is not in line with the number of staff envisaged in the Rulebooks of Internal organization and systematization.</p> <p>For example, according to the valid Rulebook of Internal organization and systematization of Ministry of Finance, seven job positions are foreseen in the Internal Audit Department and according to job descriptions all of them are in charge of auditing EU funds. However, five job positions are filled while two job positions are vacant. Additionally, Ministry of Finance has signed 17 Agreements on the entrustment of internal audit work. By signing these Agreements IAD is committed to perform internal audit in the institutions with which agreements have been signed, which significantly increases their work load. The WLA has shown the necessity for additional staff. IAD conducted audits of DMS-NAO SO and CFCU during 2018 and issued audit reports.</p> <p>The Rulebook of internal organization and systematization of the Ministry of Labour and Social Welfare foresees 4 job positions in the Internal Audit Department out of which 2 are vacant. PIU in MLSW was a subject of internal audit in 2018.</p> <p>Also, the Rulebook of internal organization and systematization of the Ministry of Education foresees 4 job positions in total in the Internal Audit Department. It is determined that 3 internal auditors, Head of Internal Audit Department, Superior Internal Auditor and Junior internal auditor, are employed. Job position of Senior Internal Auditor is vacant.</p>	<p>internal audit capacities by filling vacant work posts in the Rulebooks of Internal organization and systematization and also respecting the needs expressed in the WLA.</p>	<p>centralised Internal Audit Unit responsible for audit of EU funds has been established within MF and until now three internal auditors have been nominated. Bearing in mind activities already undertaken in the previous period, as well as the activities planned for the upcoming period, it can be concluded that functional and operational capacities of Department in charge for audit of EU funds provides assurance for effective and efficient internal audit of EU funds. Annual plan for 2023 has been properly developed and signed by IAD for EU funds.</p> <p>Taking into account all previously mentioned, it is evident that big progress was made in the previous period in resolving the issues related to this finding and establishing effective internal audit function in relation to IPA II.</p> <p>We consider that the recommendation is implemented and finding is preliminary closed. However, we will performe audit of IAU functioning in upcoming period.</p>		
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<p>According to the job descriptions in Rulebook “Senior Internal Auditor” and “Junior Internal Auditor” are in charge of auditing EU funds. So Internal Audit Department currently can not perform the audit activities relating EU Funds with full capacities.</p> <p>The Rulebook of internal organization and systematization of the Public Works Administration foresees 4 job positions in the Internal Audit Department and all are vacant. We noted that PWA was subject to audit of IAD of Ministry of Sustainable Development and Tourism, as this IPA body in the previous period (before 2019) was a part of mentioned ministry.</p> <p>When it comes to the Ministry of Science, it is determined that this Ministry does not have internal audit department but internal audit tasks are entrusted to IAD of Ministry of finance. This PIU was not audited by IAD during 2018. Ministry of Human and Minority Rights also does not have internal audit department and internal audit tasks are entrusted to IAD of Ministry of Labour and Social Welfare. In 2018 this PIU was not subject to any internal audit. Until now, NIPAC office was not subject to any internal audit engagement.</p> <p>Lack of employees in the Internal Audit Departments, who are in charge of auditing EU funds may affect on performance of tasks as well as quality of conducting the audits.</p>				
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3.	<p>IT policy – Back up of data and trainings (Details: See section 4.6)</p> <p>Body/-ies concerned by the finding: All IPA bodies</p> <p>According to the Manual of Procedures (V2.0), chapter IT policy, section Storage of data and back-up, inter alia the following is prescribed:</p> <ul style="list-style-type: none"> • All important data is backed up on a daily basis; • The IPA Body staff shall always store data in the file/applications server (servers); • The User Coordinator shall ensure that backup information is maintained according to backup policy; • The IT Coordinator shall ensure that all key servers and systems have documented backup procedures. These procedures must be detailed and be essentially a step-by-step guide to how the task is completed for the various servers and data are backed up; • All storage media should be labelled clearly and stored in a secured, lockable fireproof safe or cabinet; • The IT Coordinator shall ensure that there are detailed restore procedures in place for each major system backed up. These procedures must be detailed and be essentially a step-by-step guide to how the task is completed for the various servers and data are restored in the event of a problem occurring e.g. a server/disk crash or lost/corrupted data. <p>On the basis of performed on-the-spot checks and conducted interviews, we determined that archiving and backup of data is not performed in accordance with prescribed procedures. There is no properly defined</p>	<p>We recommend providing adequate archiving and back-up of data according to the procedures described in MoP Chapter IT policy in order to prevent data loss or ensure restoring of lost data.</p> <p>We recommend initiating and providing trainings related to IT Security policy.</p>	<p>Status: Partially Implemented</p> <p>IPA staff are currently using Share folder systems, in order to maintain all relevant data and documents. Once per week, most of them stores all data from the Shared folder on external hard disk, which was recently purchased. Certain IPA bodies purchased internal servers for storing data. However, permanent “centralized” solution regarding general IT security will be resolved by implementing Action plan ISO 27002. Action plan ISO 27002 regarding IT security policy was adopted on the Government session held on March 19th 2020. The implementation of the Action Plan is foreseen for the period 2020 - 2022 with activities requiring the involvement of an independent consulting institution with specific experience in the required field.</p> <p>The new Steering Committee was established by the relevant Decision of the Ministry of Public Administration on December 30th 2021, consisting of 4 members.</p> <p>Upgraded AP 2022 is in process of development and will be submitted after finalisation to the Government of Montenegro and further to the DG NEAR. ISO 27002 Policy/Strategy is defined as primary point for the specific AP implementation hence will be developed as soon as possible by Ministry of Public Administration, Digital Society and Media.</p>	Intermediate	September 2023
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	<p>back up storage. So, there is a risk of loss of data in case of error in information systems in which information is destroyed by failures or negligence in storage, transmission, or processing. To mitigate the risk of losing data, the staff from IPA bodies use external hard disks and USB disks for archiving data from their computers. They perform this periodically. Previously mentioned external hard disks are stored in the premises of each IPA body. However, archiving data in this way is not secure enough and is not in accordance with prescribed procedures for back up and archiving data which are described in MoP, chapter IT policy.</p> <p>Also, we have concluded that employees from IPA bodies did not have enough trainings related to IT security policy. In the period under review insignificant number of employees attended few trainings related to cyber security and computer data protection. Bearing in mind the importance of IT security, using file servers, having adequate and secure data storage, employees from IPA bodies should have more trainings with regard to this policy.</p>		<p>Until now, most activities envisaged in the IT Action plan ISO 27002 have not been implemented and AA will continue to monitor until the recommendation is fully implemented.</p>		
4.	<p>Inadequate and incomplete monitoring and reporting at sectoral and action level (Details: See section 4.7)</p> <p>Body/-ies concerned by the finding: NIPAC Office¹⁰</p> <p>According to IPA II Implementing Regulation No 447/2014, Article 4, the National IPA Coordinator (NIPAC) shall be the main counterpart of the European Commission for the overall process of strategic planning, coordination of programming, monitoring of implementation, evaluation and reporting of IPA II</p>	<p>We recommend to NIPAC Office carrying out proper coordination and taking all relevant and necessary activities, under its responsibility, in order to ensure that Monitoring and Reporting at Sectoral and Action Level are satisfactory and in accordance with prescribed procedures and</p>	<p>Status: Partially implemented</p> <p>During 2021, through regular communication the NIPAC Office with line ministries included in the implementation of IPA programmes emphasize the need for strengthening the monitoring system, including the one for SOPEES. However, the process was endangered by the change in political structures in Montenegro in the past two</p>	<p>Intermediate</p>	<p>September 2023</p>

¹⁰ As monitoring and reporting at the action level is under the responsibility of PIUs, finding is indirectly addressed to all PIUs and will be under the scope of following system audits in PIUs

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	<p>assistance. Therefore, in line with the IPA II IR, the responsibility for the monitoring of implementation belongs to the NIPAC, who has to set up an adequate monitoring framework under the OS.</p> <p>“The main role in reporting at programme level is with NIPAC office. Annual Report on Implementation of IPA II Assistance shall be drawn up under the coordination of NIPAC office with input from the bodies of the operating structures and related monitoring reports.</p> <p>When it comes to Monitoring and Reporting at Sectoral Level, the Semi-annual Action Monitoring Reports are prepared by NIPAC Office based on the inputs of the quarterly reports.</p> <p>Monitoring and Reporting at Action Level includes preparation of Quarterly Action Monitoring Reports which shall be drawn up under the coordination of NIPAC office and prepared by PIUs/Lead SPOs. QAMRs shall be submitted to the NIPAC office, quarterly during the year, with the following cut-off dates: 31st March, 30th June, 30th September and 31st December. QAMR shall be prepared and submitted to NIPAC office 10 working days after the cut-off dates.</p> <p>For proper coordination of the reporting requirements, NIPAC Office shall lead the process of preparing of all monitoring reports. In order to ensure timely preparation and high quality of reports, the NIPAC office shall:</p> <ul style="list-style-type: none"> • Sets a time-schedule for preparing the annual reports; • Issue guidelines and instructions to SPOs/PIUs regarding their input for annual reports at Action level; • Ensures for the quality control of the input, submitted by the SPOs/PIUs; • Monitor the time-schedule for preparation of annual reports, approval and submission.” 	<p>IPA regulations. This way the potential risk of preparing and issuing Annual Report on Implementation of IPA II assistance on the basis of inadequate and incomplete information about SOPEES will be mitigated.</p>	<p>years, and that some ministries haven't established the PIU units in a timely manner and therefore named SPOs. Therefore, monitoring and reporting at action level has not been implemented in line with procedures.</p> <p>Based on the auditee's response, we found that NIPAC Office undertook respective activities in order to improve coordination and to ensure adequate Monitoring and Reporting regarding SOPEES.</p> <p>We will monitor the implementation of recommendation.</p>		
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<p>Based on documentation obtained, desk checks performed and interviews conducted we determined that monitoring activities regarding IPA II 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES) is not at satisfied level and is not in accordance with prescribed procedures.</p> <p>Namely, reviewing documentation related to preparation of Annual Report on Implementation of IPA II Assistance in 2018 we determined that this report was issued in time but was not based on information deriving from Semi-Annual Sector Monitoring Report. Actually, during the on the spot check at the NIPAC Office we were not presented any SASMR because this type of monitoring document has not been prepared and issued in the previous period. Due to this fact we consider that monitoring and reporting at sectoral level has not been implemented in line with prescribed procedures.</p> <p>Also, we determined that Monitoring and Reporting at Action Level was not at the satisfied level in the previous period. On the basis of enclosed documentation, we determined that only one PIU (MLSW) respected procedures and responsibility of drawing up Quarterly Action Monitoring Reports (QAMR) for each period of implementation while one PIU (MoS) partially fulfilled this obligation. The rest of PIUs did not respect obligation preparing and submitting QAMRs to NIPAC Office. Therefore, we consider that monitoring and reporting at action level has not been implemented in line with procedures.</p> <p>Therefore, monitoring and reporting at the sector and action level were not satisfactory in the previous period, i.e. were not carried out in line with prescribed procedures. In our opinion this may lead to potential risk that Annual Report on Implementation of IPA II assistance could be prepared on the basis of inadequate</p>				
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	and incomplete information about SOPEES.				
List of findings from the Report on System Audit No. 3011-1-06-402/3 (December, 2020)					
No	Finding	Recommendation	Status as at beginning of March 2022	Priority level	New deadline for implementation
1.	<p>Insufficient understanding of the risk management process (Details: See section 4.1)</p> <p>Body/-ies concerned by the finding: All IPA bodies</p> <p>According to MoP, Chapter Risk Management:</p> <p>“Risk management goal is to bring the related risks to an acceptable level by carrying out measures that would mitigate the likelihood of risk occurrence, impact of risk realization or both at the same time.</p> <p>Analysis of risks with defined level of risk acceptance may provide reasonable assurance that the objectives will be achieved. However, even a well-designed and operated Risk management cannot guarantee that all objectives will be fully achieved.</p> <p>In practice, Risk management activity at any level of the IPA structure and authorities is implemented by:</p> <ul style="list-style-type: none"> • Preventive actions; • Administrative verifications; • On-the-spot verifications; • Any other action/ initiative that may mitigate identified risks. <p>The Risk management includes different activities like identifying, assessing, prioritizing risks, planning, implementation and review of mitigating or corrective</p>	<p>We recommend to all IPA bodies to organize additional trainings for all persons involved in the risk management process and to provide detailed instructions on how and when to complete each annex related to risk management. These trainings should be designed to contribute to a better understanding of risk management, a clearer defining of risks and mitigating actions, etc.</p>	<p>Status: Implemented (preliminary)</p> <p>AA identified significant efforts of management and operating structure in the previous period in regard of improving risk management. Risk Management Panel is set up twice a year, in order to bring together the Risk managers of the bodies constituting the internal control system for IPA II. The second Risk panel was held through model of training in area of risk management, under the project of Strengthening the capacities of Directorate for Management Structure for IPA Programmes managed under indirect management. Purpose was one-day training in risk management to support the NAO/DMS and IPA bodies in improving risk management practice. Additionally, DMS Upgrading of Manual of procedures is on-going. Namely, NAO/DMS initiated intensive work on Manual of Procedures version 3.0, which will cover all necessary changes and improve existing annexes and procedures regarding Risk Management. Chapter Risk Management was upgraded properly within clarification of the guidelines for risk management process</p>	N/A	N/A

<p>actions as well as in advance planning and control.”</p> <p>Based on documentation obtained, desk checks performed and interviews conducted, we concluded that risk management activities regarding IPA II 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES) and in general understanding of risk management is not at satisfactory level.</p> <p>We identified that all formal requirements in Risk Management have been met, that everyone in the IPA structure recognizes the risks, fills in risk alert forms, fulfils risk register and makes action plans.</p> <p>Despite all the formally met conditions in the process of identifying risks and planning actions that will reduce them, we consider that this is an area that needs more attention in order to improve this process and thus contribute to achieving the set goals. Namely, it is a common situation that risk alert forms are filled in just before the risk panel and on the same date the risk registers and action plans are filled out. Because of this approach, it happens that: dates are entered incorrectly, risks are vaguely defined, risk mitigation actions are planned too generally and without clear timelines, the registers are filled in the wrong column, the same risk is recognized several times, risks are deleted from the risk register and so on. During the conducted interviews with risk managers, we found that the auditees had recognized the risks and had reacted to them in a timely manner but they had not had a record of what actions they had undertaken.</p> <p>Below we have singled out some examples of deficiencies and misunderstandings of risk management process in different bodies:</p> <ul style="list-style-type: none"> • MHMR-PIU <p>Risk alert forms were completed on</p>		<p>i.e. recognition of risks, filling in risk alert forms, fulfilling risk register and developing action plans. Adoption of MoP v. 3.0 is expected. Representatives of all IPA bodies attended RMPs and respective trainings related to risk management process during 2022 and will continue in 2023. In this regard, annexes related to RM have been updated and properly improved. We consider that the recommendation is implemented and finding is preliminary closed. However, we will continue to monitor this issue in the upcoming period.</p>		
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	<p>25/06/2020 while in the risk register states that the risks were identified on 03/12/2019. Also, the risk register did not include the risk of delays in implementation of the Action but this risk was identified within the risk action plan.</p> <ul style="list-style-type: none"> • MoE-PIU <p>Risk Action Plan, under risk no 3 the following is defined:</p> <ul style="list-style-type: none"> - Risk trigger event, situation or factor - Need for continuous capacity building of IPA officers for IPA project implementation - Mitigation measures - Continuous training of personnel - Responsibility - Head of PIU - Timeline for implementation of measures – Continuous - Action already taken (follow up information) - PIU officers attended IPA -targeted training events. • CFCU-IA <p>The risk No. 82 in the Risk register is defined as follows:</p> <ul style="list-style-type: none"> - Risk trigger event, situation or factor - The following activities defined in the ToR related to Component 1 (activity 4 and 5) and Component 2 (activity 4) have not been implemented yet. Bearing in mind that the end of the contract is September 2020, there is a certain risk that the indicators defined in the ToR will not be fulfilled. - Impact area and description of potential consequences - Improvement and strengthening of institutional set-up and legal framework in the area of state aid and public procurement 				
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	<ul style="list-style-type: none"> - Recommended preventive/contingency actions - The contract manager responsible for this project informed his superiors on any obstacle that could affect the implementation of the project. It is planned that the contractor submits to the CFCU the request for an addendum (no cost extension). • MLSW-PIU All risk alert forms and all risks in Risk Register are from 25/06/2020. • PWA-IA The risk of Lack of staff (Insufficient number of employees, Staff have been overloaded) was opened for nine times/positions in the Risk Register. There are also active risks in the RR with a probability and impact equal to zero. <p>In our opinion, this approach cannot ensure measures that mitigate the likelihood of risk occurrence, impact of risk realization or both at the same time.</p> <p>These measures do not ensure the achievement of the goal since the specific action is planned only after the emergence of a risky situation, and this can often be untimely. Our opinion is that all this occurs due to insufficient understanding of the risk management process.</p>				
2.	<p>Non-compliance with prescribed rules and procedures related to contracting and payment procedures (Details: See section 4.2)</p> <p>Body/-ies concerned by the finding: CFCU/IA</p> <p>According to the Framework Agreement between Montenegro and the European Commission on the arrangements for implementation of Union financial</p>	<p>We recommend to CFCU/IA to:</p> <ul style="list-style-type: none"> - Strictly respect all principles and rules for implementation of Union financial assistance under IPA II in order to protect Union and national interests in line with 	<p>Status: Implemented</p> <p>According to the auditee's response, we consider that CFCU is aware of omissions made within this grant scheme and necessity to pay more attention to the future calls and procurements. We found that in the previous period CFCU took care of</p>	N/A	N/A

<p>assistance to Montenegro under the Instrument for Pre-accession Assistance (IPA II), the following provisions shall be respected:</p> <p>Article 12 Conditions for entrusting the IPA II beneficiary with budget implementation tasks</p> <p>“... (2) When managing IPA II funds, the IPA II beneficiary shall respect the principles of sound financial management, transparency and non-discrimination, and shall ensure the visibility of IPA II assistance. The IPA II beneficiary shall guarantee a level of protection of the financial interests of the European Union equivalent to that required under the Financial Regulation when managing IPA II funds, with due consideration for:</p> <p>a) the nature of the tasks entrusted to them and amounts involved; b) the financial risks involved; c) the level of assurance stemming from their systems, rules and procedures together with the measures taken by the Commission to supervise and support the implementation of the tasks entrusted to them.</p> <p>(3) In order to protect the financial interests of the Union, the IPA II beneficiary shall:</p> <p>a) set up and ensure the functioning of an effective and efficient internal control system; ... d) apply appropriate rules and procedures for providing financing from IPA II assistance through grants, procurement and financial instruments.”</p> <p>According to the PRAG (Version 2018.0), section 2.10.2. Contract preparation and signature, among the other provisions, the following is stipulated: “When preparing the contract for signature, the contracting authority must proceed as follow: ... -Sign and date all originals of the contract and initial all pages of the special conditions and most relevant</p>	<p>provisions of FwA and Financial Regulation. Failure to fully respect relevant rules and principles can jeopardize financial interests and may lead to risk of incurring additional unnecessary costs.</p> <p>- Avoiding publishing different variants of one document/annex under the same call for proposals/tender and clearly defining all relevant requirements needed to be fulfilled. Once requirements are established and published, they should be fully respected by the end.</p> <p>- Improving controls in order to ensure that provisions of contracts signed are fully respected.</p>	<p>fully respecting all relevant rules and procedures and we checked procurement procedures and calls for proposals conducted after the issuing of this finding and recommendations. We found that CFCU respected the principles of sound financial management, transparency and equal treatment.</p> <p>We consider this finding closed.</p>		
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<p>annexes including, for grants, the budget. In case of grants, the contracts must be signed within 3 months from the date of notification of the evaluation results, ...</p> <p>-Send the signed originals of the contract to the successful tenderer/applicant, who must countersign them within 30 days of receipt.</p> <p>-The tenderer or grant applicant keeps one original and returns the other(s) to the contracting authority with any financial guarantee(s) required in the contract. If the successful tenderer/applicant fails to do this within the specified deadline or indicates at any stage that it is not willing or able to sign the contract, the tenderer/applicant cannot be awarded the contract.</p> <p>...“</p> <p>Reviewing and analysing documentation related to Grant scheme “<i>Training and education activities for deficit occupations and for boosting employability of RE population</i>” (EuropeAid/163191/ID/ACT/ME), we have determined deficiencies within the contracting and payment procedures for certain grant contracts. The restricted Call for proposals was published on 01/03/2019. We identified that two different templates of grant contract (special conditions) had been published at the same time. Namely, Standard Grant Contract with all relevant annexes was published as zipped file Annex G and the second template of Grant contract, which was pre-adapted for this call for proposals, was published as a separate document/annex. The main difference between these two annexes (templates) is the requirement regarding pre-financing guarantee. In the standard template, the provision of pre-financing guarantee is foreseen as optional (if deemed necessary and appropriate by the Contracting Authority). In the template pre-adapted for this particular call for proposals, provision of the pre-financing guarantee is mandatory (Article 4.2: “<i>The first instalment of pre-financing shall be accompanied by a financial guarantee amounting to EUR <amount,</i></p>				
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<p><i>usually the amount of the first pre-financing payment> and complying with the requirements of Article 15.8 of Annex II.”).</i></p> <p>We determined that evaluation phase had been finished by mid-August 2019 when Evaluation Report Step 3 was approved by EUD (15/08/2019). Notifications to nine successful applicants were sent on 13/09/2019 out of which four selected applicants were private entities. Request for global endorsement was approved by EUD on 14/11/2019 and Contracting Authority sent contracts for signature on 15/11/2019. However, analysing all of 9 signed grant contracts (special conditions), we determined that 8 contracts had been signed by Head of CA on 15/11/2019 while one of them had been signed by CA on 30/01/2020. Considering that notifications on the outcome of the evaluation were sent on 13/09/2019 and the rule that the contracts must be signed within 3 months from the date of notification of the evaluation results, it is evident that in case of grant contract CFCU/MNE/094 the previously mentioned rule has been violated. We have been informed by CA that delay in signing of this grant contract was because private entity didn't want to sign contract due to inability to provide pre-financing guarantee. Lastly, this grant contract was signed in the same way as the other three with private entities within this grant scheme</p> <p>As aforementioned, according to the rules and documentation published for this call for proposals, four out of nine successful applicants (private entities) were obliged to provide pre-financing guarantee because they are profit making entities. These four grant contracts were signed in line with template of Grant contract which was pre-adapted for this call for proposals (the provision of pre-financing guarantee was a must). However, after signing the contracts all of four awarded applicants/private entities informed CA that they were neither able to provide the pre-financing</p>				
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<p>guarantee due to high banking costs, nor to start with realisation of project activities from its own budget, due to insufficiency of available funds. Therefore, we identified non-compliance with previously noted provisions of PRAG section 2.10.2 because awarded grant applicants signed the contracts and returned the originals to the Contracting Authority without financial guarantee required in the contract.</p> <p>In order to resolve this situation and to ensure the implementation of these grant contracts, CA decided to proceed with addenda to all four contracts and to remove the requirement for the pre-financing guarantee. The addenda to four grant contracts (CFCU/MNE/094, CFCU/MNE/097, CFCU/MNE/099 and CFCU/MNE/100) was sent on 05/02/2020 to EUD on ex-ante control. Addendums were signed by the end of February and at the beginning of March 2020. Afterwards, CA executed advance payments for these grant contracts (without requiring pre-financing guarantees). According to the Annex II (General Conditions) to grant contracts, article 15.4. <i>“The initial pre-financing payment shall be made within 30 days of receipt of the payment request by the contracting authority.”</i> In addition to the fact that payments were made with a significant delay in relation to the dates of signing grant contracts, in case of one contract advance payment was also executed with delay in relation to the date of signing the addendum to the contract. CA explained that this payment has been postponed due to Government measures caused by COVID-19. Considering the date of signature of addendum and the starting date when Government measures took place, we found this explanation irrelevant.</p>				
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The summarized data with dates is presented in the following table:

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

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

that planned activities would not be fully implemented.

Conclusion:

Awarded grant beneficiaries failed to comply with provisions of signed contracts, i.e. did not provide pre-financing guarantees, and Contracting Authority undertook the risk of potential failure to respect the principles of sound financial management, transparency and equal treatment. In this way Union and national financial interests were compromised and were not protected in line with provisions of FwA and Financial Regulation bearing in mind that CFCU/IA cannot ensure that pre-financing could be repaid in

	<p>case of termination of contracts. Having this in mind, we consider that in this case CFCU/IA did not fully adhere to the principle of sound financial management. Principle of transparency was not fully respected in case of Grant contract CFCU/MNE/094. The principle of equal treatment was compromised by the fact that in the published pre-adapted template of grant contract the provision of pre-financing guarantee was a must but later, after the contracts signature, CA waived from requesting financial guarantee. In such a way preferential treatment was given to these four beneficiaries over others who maybe did not apply at this call for proposals because of requirement for pre-financing guarantee.</p>				
3.	<p>Exceeding the period for informing the applicants of the outcome of the evaluation process (Details: See section 4.3)</p> <p>Body/-ies concerned by the finding: CFCU/IA; MHMR/PIU</p> <p>According to the Financing Agreement, Annex II, <i>Article 2 Public procurement</i>: “(1) The tasks referred to in Article 1(1) shall be carried out by the IPA II beneficiary in accordance with the procedures and standard documents laid down and published by the Commission for the award of the procurement and grant contracts in external actions, in force at the time of the launched the procedure in question (PRAG), as well as in accordance with required visibility and communication standards referred to in Article 3(2).”</p> <p>PRAG (Version 2019.0), stipulates the following:</p> <p><i>Section 2.9.4. Timetable</i> “The evaluation committee must be formed early enough to ensure that the members (and any observer appointed by the European Commission) are available in time to prepare and conduct the evaluation process. The tenders must be</p>	<p>We recommend to the NAO to undertake activities prescribed by Financial Regulation in the event of exceeding the period for informing all applicants of the outcome of the evaluation of their applications.</p> <p>We recommend to CFCU/IA improving controls within the tendering and evaluation process in order to ensure timely implementation of the whole procedure with respecting the rules and provisions of relevant regulations. In case of changing provisional dates presented in indicative timetable, we recommend timely updating it and publishing on relevant sites.</p> <p>We recommend to</p>	<p>Status: Implemented</p> <p>For the efficient and effective functioning of a system it is necessary that all the links in the chain be proactive and effective. We consider that all actors in the system should efficiently and effectively do the work within their competences. According to the auditees’ responses and checks performed, we concluded that the deadlines set in the PRAG and the MoP were regularly met by CFCU in the period after issuing this finding. We consider this finding closed.</p>	N/A	N/A

<p>evaluated in time to allow the procedure to be completed within the validity period of the tenders. Extending the validity of tenders (see Section 2.9.5.) should be avoided.</p> <p>It is very important that all tenderers, whether successful or unsuccessful, receive information without delay.”</p> <p><i>Section 6.5.10. Awarding grants:</i> “Notifications to the successful lead applicants on the outcome of the evaluation of their applications must be provided within 6 months following the submission deadline of the full application.”</p> <p>During the performance of audit activities and checks related to requirement 3-Control activities from Internal Control Framework (Annex B to FwA), we identified that grant scheme “Support to the social inclusion of Roma and Egyptians” had been carried out through open call for proposals (Ref: EuropeAid/165-661/ID/ACT/ME). According to the Guidelines for grant applicants, which were published on 07/08/2019, in the section 2.2.3 it was stipulated that the deadline for submission of full application is 07/11/2019. In Section 2.5.2 of Guidelines Indicative timetable for this call for proposals was given and indicative dates of, inter alia, “8.Notification of award (after the eligibility check)(Step 3)” were set out on 18/02/2020 and “9.Contract signature” on 31/03/2020. Below this indicative timetable it was stated as follows: “<i>This indicative timetable refers to provisional dates (except for dates 2, 3, and 4) and may be updated by the contracting authority during the procedure. In such cases, the updated timetable will be published on the web site of DG International Cooperation and Development:</i> https://webgate.ec.europa.eu/europeaid/online-services/index.cfm?do=publi_welcome_and_the_Contracting_Authority_website: http://www.cfcu.gov.me/en/tenders/grants/open_calls”</p>	<p>PIU/MHMR timely sending the proposal for the evaluation committee members for the upcoming procurements and calls for proposals under its responsibility in order to create preconditions for nomination of evaluation committee on time and starting the evaluation process.</p>			
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	<p>.”</p> <p>However, we found that neither previously mentioned dates within Indicative timetable were respected nor were they updated and published. Moreover, the activities from the date of the deadline for submission of full applications to notifying the applicants on the outcome of the evaluation process lasted too long. This led to the situation that provision of the Financial Regulation and PRAG, which is related to the period for informing the applicants of the outcome of the evaluation process (a maximum of six months from the final date for submission of complete proposals), was not respected.</p> <p>Namely, the Contracting Authority sent to the successful lead applicant and unsuccessful applicant notifications on the outcome of the evaluation of their applications on 02/07/2020. Bearing in mind that the deadline for submission of full applications was 07/11/2019 it is evident that the period for informing the applicants of the outcome of the evaluation process was exceeded for 1 month and 25 days.</p> <p>In our opinion a various factor caused this delay as follows:</p> <ul style="list-style-type: none"> • Firstly, the nomination of Evaluation Committee was not timely. Taking into account that call for proposals was published on 07/08/2019 and that the deadline for submission of full applications was 07/11/2019, it is incomprehensible that EvC was officially nominated by Head of CA on 10/12/2019 (after the EUD approval on 09/12/2019). The reasons for delay of nomination of EvC lie in the fact that PIU sent proposal of members of Evaluation Committee very late on 20/11/2019 and that EUD approved the nomination of EvC 14 				
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	<p>days (09/12/2019) after the CA sent proposal (25/11/2019).</p> <ul style="list-style-type: none"> Consequently, the first meeting of EvC was held on 18/12/2019. First step of the evaluation process was formally finished on 12/02/2020 when the Evaluation Report Step 1 was approved by EUD. On 13/02/2020 CA informed applicants who had satisfactory concept notes that their full applications will be evaluated. The evaluation process step 2 and 3 also lasted too long, taking into account that only two full applications had been evaluated. The first meeting of EvC was held on 14/02/2020 and the last was on 18/05/2020. The Evaluation Report Step 2 was prepared and signed on 20/05/2020 while EUD approved it on 17/06/2020. The ER step 3 was prepared and signed on 18/06/2020 and approved by EUD on 01/07/2020. Finally, the applicants were informed by CA on the outcome of the evaluation of their applications on 02/07/2020. <p>Therefore, the evaluation committee was not formed timely to ensure that the evaluation process is conducted on time and, in our opinion, the evaluation process lasted too long which led to the exceeding the prescribed deadline.</p>				
4.	<p>Non-respecting the procedure related to cancellation of procurement (Details: See section 4.4)</p> <p>Body/-ies concerned by the finding: CFCU/IA</p> <p>PRAG (Version 2018.0), stipulates the following: Section 2.6.13. Cancellation of procurement procedures</p>	<p>We recommend to CFCU/IA to consistently apply all prescribed rules and procedures for each type of procurement and grant calls. If a procurement procedure is cancelled, all tenderers must be notified in writing and as soon as possible of the</p>	<p>Status: Implemented</p> <p>We monitored implementation through procurements and calls for proposals during the previous period. According to the auditees' responses and checks performed, we consider this finding</p>	N/A	N/A

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	<p>“... If a procurement procedure is cancelled, all tenderers must be notified in writing and as soon as possible of the reasons for the cancellation. A cancellation notice must be published. See the template in Annex A5.”</p> <p>During the performance of audit activities and checks regarding procurement procedure “Further development of the local employment initiatives in Montenegro” (EuropeAid/139848/IH/SER/ME), we determined that prescribed procedures related to cancellation of procurement had not been fully respected. Namely, the Prior Information Notice for service tender procedure was published on 21/08/2018 and Contract Notice was primarily published on 09/10/2018 with the deadline for receipt of applications on 12/11/2018. However, this tender procedure was cancelled and re-launched. Cancellation notice was submitted to EUD for ex-ante control and approval on 15/11/2018. Cancellation notice was approved by EUD on 22/11/2018 and published on 27/11/2018. Reviewing the procedure and documentation related to cancellation and relaunching of this tender procedure, we did not find any evidence that tenderers were notified in writing on this situation. Considering the primarily established deadline for submission of applications (which was 12/11/2018) and date of submission of Cancellation Notice to EUD (which was 15/11/2018) as well as date of publishing the Cancellation Notice (which was 27/11/2018), it was necessary that all interested tenderers were notified in writing on cancellation of this procedure and reasons for the cancellation.</p>	reasons for the cancellation.	closed.		
5.	<p>Lack of monitoring and reporting at action level (Details: See section 4.6)</p> <p>Body/-ies concerned by the finding: MHMR/PIU</p> <p>According to the MoP 2.0 Chapter Programme Action</p>	<p>We recommend to PIU MHMR/SPO to put the activity of drawing up of QAMRs and submitting it to the NIPAC/NIPAC Office</p>	<p>Status: Implemented</p> <p>According to the auditees’ responses and checks performed, we consider this finding closed.</p>	N/A	N/A

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<p>Monitoring: “Quarterly Action Monitoring Reports (QAMR) shall be drawn up under the coordination of NIPAC office and prepared by PIUs/Lead SPOs; QAMR contains financial data provided by the CFCU and DPW. In order to enhance efficiency and bring additional simplification of the procedures, one QAMR is prepared by SPO/PIUs for NIPAC Office and implementing agencies”. Therefore, PIU/SPO has the obligation and the responsibility to draw up action monitoring reports quarterly and submit it to NIPAC Office, which is responsible for preparing the Annual Report on Implementation of IPA II assistance and the Final Report on Implementation of IPA II assistance based on information deriving from 2nd Semi-Annual Sector Monitoring Report SASMR (with cut-off date 30th September), that is complemented with information deriving from 4th Quarterly Action Monitoring Reports QAMRs. QAMRs shall be submitted to the NIPAC office, quarterly during the year, with the following cut-off dates: 31st March, 30th June, 30th September and 31st December. QAMR shall be prepared and submitted to NIPAC office 10 working days after the cut-off dates.</p> <p>Based on documentation obtained, desk checks performed and interviews conducted we determined that monitoring activities regarding IPA II 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES) were not at satisfactory level and were not in accordance with prescribed procedures.</p> <p>Namely, after conducting the interview with PIU MHMR staff, we determined that none of the QAMR for 2019 or 2020 had been drawn up or submitted to the NIPAC Office, as prescribed by the MoP 2.0. Therefore, monitoring and reporting at action level has not been implemented in line with procedures. Furthermore, having an insight into the Annual Work Plan of PIU MHMR for 2020, we noticed that drawing</p>	<p>within the prescribe deadline in the Annual Work Plan. Furthermore, in accordance with the AWP and obligations regarding monitoring and reporting, we recommend to MHMR/PIU to timely and regularly draw up QAMRs and submit it to the NIPAC/NIPAC Office. In this way, PIU MHMR will ensure that Monitoring and Reporting at Action Level are in accordance with prescribed procedures and IPA regulations. Also, the potential risk of preparing and issuing Semi-Annual Sector Monitoring Report SASMR and Annual Report on Implementation of IPA II assistance by the NIPAC on the basis of inadequate and incomplete information about SOPEES will be mitigated.</p> <p>Note: During the contradictory procedure and before issuing the final system audit report, PIU sent the following response “Due to the COVID 19 and specific situation, first quarterly report was not sent, but after that we sent regularly following reports.” To confirm this, please submit the evidences (e-mails, official letters) that</p>			
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<p>up of QAMRs and submitting it to the NIPAC Office had not planned in the AWP.</p> <p>To summarize, obligations regarding monitoring and reporting at the action level were not fulfilled in the previous period as prescribed by the procedures from MoP. In our opinion this may lead to potential risk that Semi-Annual Sector Monitoring Report SASMR and Annual Report on Implementation of IPA II assistance, prepared by NIPAC on the basis of QAMRs could be prepared based on the inadequate and incomplete information about actions/activities for which MHMR is responsible.</p>	<p>QAMRs for second, third and fourth quarter of 2020 were regularly sent to NIPAC office.</p>			
List of findings from the Report on System Audit No. 3011-1-06-36/2 (February, 2022)				
Finding	Recommendation	Status as at beginning of March 2022	Priority level	New deadline for implementation
<p>Deficiencies in functioning of the PIU in MJHMR (Details: See section 4.1)</p> <p>Body/-ies concerned by the finding: PIU in MJHMR</p> <p>According to the MoP 2.0: “The Annual Work Plan is being prepared based on managers and staff meeting aiming to establish goals/objectives for specific periods of time (yearly or twice a year) based on organizational needs.</p> <p>The Annual Work Plan should include the organization’s state of mission, values and main goals that trigger the operational objectives for the on-going period of time (next year).</p> <ul style="list-style-type: none"> • It provides an overall direction of the organization and a context for monitoring and evaluation of its performance. • It provides input for the Work Load Analysis • It provides the basis for determining the institutional development budget. 	<p>We recommend to PIU in MJHMR to take on all responsibilities and obligations related to implementation of IPA II 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES) and meet them in accordance with provisions of relevant regulations and in line with prescribed procedures.</p> <p>The fulfilment of all prescribed responsibilities and obligations under the competence of this PIU will</p>	<p>Status: Implemented</p> <p>According to the auditees’ responses and checks performed, we consider this finding closed.</p>	<p>N/A</p>	<p>N/A</p>

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<p>The Annual Work Plan shall be prepared by each IPA Body following an internal discussion between the staff and the Head of the organization on specific objectives and activities ensuring achievement of set objectives, by 31st December for the following year. The Annual Work Plan shall be based on plans for the following year, taking fully into consideration lessons learned and implementation of the activities defined by the plans for the previous years.</p> <p>A monitoring of the progress of implementation of the plan shall be carried out by the Head of IPA Body on a semi-annual basis in July and December (twice a year) and the progress shall be discussed with the staff. The plan shall be updated, in case the Head of IPA Body decides that changes that have occurred have the impact on it. The AWP, its updates and monitoring shall be available to the staff.”</p> <p>Also, in the Chapter Internal Control System it is prescribed that for the purposes of supporting the NAO in performing his/her responsibility for effective functioning of the internal control systems, the PIU shall inform NAO ex-ante on any substantial change in the management and control system and obtain prior approval from the NAO. The Chapter “Communication and reporting” prescribes that one of the SPO/PIU responsibilities is immediate notification to the NAO of any substantial change concerning its internal control system. Significant changes to the management and control system are defined in MoP 2.0 Chapter on Internal Control, Section 5.</p> <p>Within the Chapter Programme Action Monitoring the following is prescribed: “Quarterly Action Monitoring Reports (QAMR) shall be drawn up under the coordination of NIPAC office and prepared by PIUs/Lead SPOs.” Therefore, PIU/SPO has the obligation and the responsibility to draw up action monitoring reports quarterly and submit it to the NIPAC Office, which is responsible for preparing the Annual Report on Implementation of IPA II assistance and the Final Report on Implementation of IPA II assistance. QAMRs shall be submitted to the NIPAC office, quarterly during the year,</p>	<p>be closely monitored in the upcoming period and timely checked and reported.</p>			
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<p>with the following cut-off dates: 31st March, 30th June, 30th September and 31st December. QAMR shall be prepared and submitted to the NIPAC office 10 working days after the cut-off dates.”</p> <p>Based on documentation obtained, desk checks performed and interviews conducted, we determined a number of deficiencies. Namely, the Annual Work Plan for 2021 and Work Load Analysis were not prepared by PIU in MJHMR. Consequently, we found that semi-annual monitoring of AWP had not been performed.</p> <p>Also, we determined that PIU had not informed NAO on any substantial change in the management and control system, although significant changes happened in PIU during 2021. For instance, we noticed that the SPO in the MJHMR had been changed in 2021 and the NAO had not been notified.</p> <p>Additionally, we determined that monitoring activities regarding IPA II 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES) had not been at satisfactory level and had not been in accordance with prescribed procedures. We found that responsible persons from PIU had not prepared and submitted QAMRs during 2021 on a regular basis. Namely, we determined that first and second QAMR for 2021 had been drafted by former Programming Manager and approved by former SPO. However, these reports were not checked, approved/signed and sent to the NIPAC Office by the present/current SPO. So, at the moment of preparation of QAMRs for I and II Q 2021, the persons/employees who drafted them, formally were not the part of PIU in MJHMR. The QAMRs for III and IV Q 2021 were not prepared at all.</p> <p>In general, we concluded that PIU in MJHMR had not taken over, in its’ full capacity, the responsibilities and obligations concerning IPA II 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES). We received the most of information and documentation during this system audit from former SPO who</p>				
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<p>is now not the part of the current PIU.</p> <p>This situation in PIU can jeopardize the adequate implementation of contracts that are within their competence and lead to bigger problems in the functioning of the system. We will closely monitor this situation in the upcoming period.</p>				
<p>Deficiencies within the process of approving costs and execution of payments</p> <p>(Details: See section 4.2)</p> <p>Body/-ies concerned by the finding: PWA/IA</p> <p>The Directions on State Treasury Operations (OG MN No. 20/14), Article 154, prescribes the following: <i>“Funds for the implementation of the payment request funded by the EU are provided with the transfer from the IPA account to the main account of the state treasury and at the same day the payment is made to the supplier/contractor, including part which is funded by the EU as well as the part that is co-funded from national resources”</i>.</p> <p>According to the Manual of Procedures (V2.0) of OS, chapter Financing Management, section 4.2. Payments to contractors/grant beneficiaries, the whole payment procedure with set-up deadlines for each step is prescribed.</p> <p>Also, in Section 4.2.3 within Chapter Financial management of MoP specific operational procedure related to approval of financial reports/approval of costs is defined and, inter alia, prescribes the following: <i>“The written approval of reports (narrative and financial part) shall contain information on approval/rejection of narrative part of the report and financial part of the report. In that respect, IA FD shall provide data regarding financial report and cost recognized to the IA CD, who is in charge for preparation of written approval.”</i></p>	<p>We recommend to PWA (IA) to respect prescribed procedures in the Manual of Procedures related to approval of financial reports/approval of costs and accordingly to issue Written approval (for narrative and financial part) before payment execution.</p> <p>We recommend to PWA to ensure that payment order is prepared and sent to the State Treasury for execution in line with the provisions of Directions on State Treasury Operations and prescribed payment procedures in Manual of Procedures.</p>	<p>Status: Implemented(preliminary)</p> <p>On the basis of auditee’s response, and performed checks, we concluded that finding was properly treated and the most of recommended activities had been implemented.</p> <p>Bearing in mind this, we determined that CPA mostly undertook proper activities in order to resolve identified deficiencies and we consider recommendations mostly implemented and finding is preliminary closed. However, we will continue to monitor this issue in the upcoming period.</p>	N/A	N/A

<p>During the examination and checks performed in PWA related to payment procedures, we identified deficiencies in respect to approval of financial reports/approval of costs and in payment execution. By reviewing and analyzing the documentation regarding the interim payment for the service contract No PWA/MNE/IPAII/SOPEES/SER/01-22/1 and final payment for the service contract No PWA/MNE/IPAII/SOPEES/SER/01-908/20-4327/2, we determined that PWA (IA) had not issued “written approval” for costs approved concerning these two payments. The PWA as Implementing Agency requested from MESCS (PIU) to issue “Read & Approved Visa” and received it, performed appropriate controls for interim and final payment and signed the relevant checklists and sent Requests for Funds to DMS/NFD. Although in both cases requests for payment were fully approved (by FC1 and FC2) by filling and signing relevant checklists for service contract and payment execution approved (by Head of FD) and authorized (by Head of PWA), written approval had not been issued for reports (narrative and financial where applicable) and costs approved, i.e. costs which were verified and validated and accordingly declared to DMS/NFD within the Request for Funds. This is not in line with prescribed procedures in MoP Chapter Financial Management.</p> <p>Additionally, we determined that execution of final payment for the second service (global price) contract had not been done in line with provisions of Directions on State Treasury Operations and prescribed payment deadlines in MoP. Namely, steps within the procedure related to this payment were done as follows:</p> <ul style="list-style-type: none"> - Invoice was received on 24th December 2020, relevant checks were performed and Read & Approved Visa submitted by PIU. - Request for Funds to DMS/NFD was sent on 16th February 2021. - Deputy NAO approved RfF on 24th February 2021 and transfer of funds (EU part) from MF-NF IPA 				
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<p>account to the State Treasury Main Account was made on the same day (24th February).</p> <ul style="list-style-type: none"> - Payment order was prepared by PWA on 2nd March 2021. - Execution of payment was done on 9th March 2021. <p>Considering timeline of previously mentioned steps within payment procedure for this service contract and the provisions of Directions on State Treasury Operations as well as prescribed payment procedures (with deadlines) in MoP (V2.0) chapter Financial management, it is evident that deadline for payment execution was not respected in this case. It took too long from the moment of transferring the funds by NFD from MF-NF IPA account to the State Treasury Main Account until PWA prepared payment order in SAP and until payment was executed to the contractor.</p>				
<p>Reconciliations between IAs and contractors' ledgers (Details: See section 4.3)</p> <p>Body/-ies concerned by the finding: Implementing Agencies - PWA and CFCU</p> <p>According to the Manual of Procedures (V2.0) of OS, chapter Accounting, section 8.2. Reconciliation between IA and Contractor's ledgers, the obligation of reconciliations is prescribed as follows:</p> <p>"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.</p> <p>The IA shall transmit to the Contractor Reconciliation Form (Annex 12) together with the accompanying letter requesting confirmation of the balances on reconciliation form. Upon receipt of the Contractor's information the IA does the counter check. In case that the contractor/grant beneficiary does not return signed Reconciliation Form to the IA within 10 working days after receipt, the IA will consider that the account balance in the ledgers of on the contractor/grant</p>	<p>We recommend to PWA (IA) to respect prescribed procedures in the Manual of Procedures related to yearly reconciliations with contractors.</p> <p>We recommend to CFCU (IA) to perform reconciliations with contractors on the basis of precise and exact amounts of balances at relevant accounts (1155, 1158, 2310) at the reconciliation date.</p>	<p>Status: Implemented(preliminary)</p> <p>According to the evidences enclosed by IAs, we determined that reconciliations with contractors have been performed in previous. In this sense, we consider this part of finding and recommendation preliminary closed. Nevertheless, we will monitor this activity in the upcoming period.</p>	N/A	N/A

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<p>beneficiary correspond to the account balance in the IA ledgers.”</p> <p>During the examination of documentation and checks performed in Implementing Agencies (CFCU and PWA) related to the accounting procedure, we identified deficiencies in respect to reconciliations between IAs’ and Contractors’ ledgers.</p> <p>The PWA as Implementing Agency did not perform any reconciliation with contractors at the end of 2020 for the contracts signed within SOPEES 2015-2017.</p> <p>The CFCU (IA) transmitted to the Contractors Reconciliation Forms (Annex 12) in February 2021 with the reconciliation date on 31st December 2020. On the basis of evidence obtained, we found that only one contractor had returned signed Reconciliation Form to the CFCU, while the rest of them, according to the CFCU staff statements, did not response within the proposed deadline (10 days). By comparison data from transmitted reconciliation forms and data from CFCU’s accounting records, we determined that Reconciliation Form (Annex 12) for the Service contract No CFCU/MNE/083 had not contained the amount of “Receivables from the contract/grant beneficiary for advances” (account 1158), although we found that the amount of advanced payment, which was not cleared until the reconciliation date (31/12/2020), was entered into the accounting records.</p>				
<p>Non-recording of assets</p> <p>(Details: See section 4.4)</p> <p>Body/-ies concerned by the finding: MED/PIU</p> <p>The Law on State-Owned Property stipulates the obligation of keeping records of the state-owned property as well as obligation of establishing single records of the state-owned property.</p>	<p>We recommend that all property purchased for PIU in MED be properly listed and entered into the property register of ministry, registration numbers be assigned in order to ensure that the exact location and user of each item is easy to identify.</p>	<p>Status: Implemented</p> <p>According to the auditees’ responses and checks performed, we consider this finding closed.</p>	<p>N/A</p>	<p>N/A</p>

<p>The Decree on Manner of Keeping Records of Movable and Immovable Property and on Inventory in the State-Owned Property regulates the manner of keeping records on the condition and changes on movable and immovable items in the state-owned property, as well as on the manner of their inventory by state bodies, local government bodies and public service authorities founded by Montenegro.</p> <p>Instructions on closer method of making inventory of movable and immovable state-owned property regulates closer method of making inventory of movable and immovable state-owned property. The inventory of movable and immovable items, according to this Instruction, shall be made by state bodies, local self-government bodies and public service authorities. The authorities shall submit data on movable and immovable items to the authority in charge of property operations in electronic form, for the purpose of keeping Real Estate Registry, i.e. accounting records of movable items, and the same authorities shall submit by the end of February of the current year for the previous year.</p> <p>IPA bodies of the Operating Structure responsible for management and implementation of the Sectoral Operational Programme for Employment, Education and Social Policies 2015-2017 were equipped with ICT equipment through the Action 4 – Technical Assistance of this OP. According to the Supply Contract for European Union external actions “Equipping Operating Structure for SOPEES 2015-2017, Lot 1 - Computer and Accessories (ICT Equipment)”, No. CFCU/MNE/087, a portion of ICT equipment were purchased for needs of PIU in MED (former PIU in MLSW). Namely, in November 2019 former PIU in MLSW received equipment in total value of 25.640,00 EUR and signed handover certificate for the following items:</p>				
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No	EQUIPMENT	Pie ce	Price per piece	Summary price				
1.	CANON IXUS 185 BLACK	1	150,00€	150,00€				
2.	180X180 SA TRONOSCEM	1	60,00€	60,00€				
3.	EPSON L1800 A3 C11CD82401	1	380,00€	380,00€				
4.	HP	10	1.175,00€	11.750,00€				
5.	HP P224 21.5" 5QG34AA	9	145,00€	1.305,00€				
6.	HP PRODESK 400 G6 SFF 138100 6EF24AV	9	620,00€	5.580,00€				
7.	LEXMARK MX421ade 369710 PRINTER	2	330,00€	660,00€				
8.	LEXMARK MX826	1	3.480,00€	3.480,00€				
9.	QNAP TS431P2-1G	1	475,00€	475,00€				
10.	UNIBINDER 8 2	1	1.800,00€	1.800,00€				
		TOTAL:		25.640,00€				

However, we determined that part of this equipment had not been adequately recorded/listed in the ministry’s register. Namely, ten laptops (HP ELITEBOOK 840) worth 11.750,00 EUR were left out of the inventory list which is not in line with aforementioned regulations. In this case it is not possible to determine with certainty which employees have taken over the equipment and who is responsible for it. All equipment had to be listed in line with provisions of relevant regulations and inventory lists submitted to the property administration

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<p>within the prescribed deadlines.</p> <p>Inadequate and incomplete inventory register could lead to the potential risk of losing property without the possibility of establishing the responsibility of that loss.</p>				
<p>Insufficient understanding of the risk management process</p> <p>(Details: See section 4.5)</p> <p>Body/-ies concerned by the finding: NIPAC Office</p> <p>According to the MoP (V2.0), Chapter Risk Management, the following is prescribed:</p> <p>“Risk management goal is to bring the related risks to an acceptable level by carrying out measures that would mitigate the likelihood of risk occurrence, impact of risk realization or both at the same time.</p> <p>Analysis of risks with defined level of risk acceptance may provide reasonable assurance that the objectives will be achieved. However, even a well-designed and operated Risk management cannot guarantee that all objectives will be fully achieved.</p> <p>In practice, Risk management activity at any level of the IPA structure and authorities is implemented by:</p> <ul style="list-style-type: none"> • Preventive actions; • Administrative verifications; • On-the-spot verifications; • Any other action/ initiative that may mitigate identified risks. <p>The Risk management includes different activities like identifying, assessing, prioritizing risks, planning, implementation and review of mitigating or corrective actions as well as in advance planning and control.”</p> <p>“A Risk Management Panel (RMP) shall be set up in order to bring together the RMs of the bodies constituting the internal</p>	<p>We recommend to NIPAC office to ensure the presence of the staff involved in the risk management process to Risk Panels and additional trainings that will provide them with detailed instructions on adequately dealing with risk management. These trainings should be designed to contribute to a better understanding of risk management and dealing with it, a clearer defining of risks and mitigating actions, etc.</p> <p>We recommend clearly defining risks, their impact and likelihood, mitigating measures and actions, timeliness and responsibilities in order to ensure proper and effective dealing with the risk management process.</p>	<p>Status: Implemented(preliminary)</p> <p>AA identified significant efforts of NIPAC in the previous period in regard of improving risk management. Risk Management Panel is set up twice a year, in order to bring together the Risk managers of the bodies constituting the internal control system for IPA II. Additionally, DMS Representatives of all IPA bodies attended RMPs and respective trainings related to risk management process during 2022 and will continue in 2023. In this regard, annexes related to RM have been updated and properly improved. We consider that the recommendation is implemented and finding is preliminary closed. However, we will continue to monitor this issue in the upcoming period.</p>	N/A	N/A

<p>control system for IPA II.</p> <p>Risk Management Panel consists of:</p> <ul style="list-style-type: none"> • Risk Coordinator; • Risk Managers of IPA OS Bodies involved; • respective Internal auditors, when appropriate.“ <p>Based on documentation obtained, desk checks performed and interviews conducted, we determined that risk management activities are not at satisfied level.</p> <p>During the performance of audit activities in the NIPAC office, we found that all formal requirements in the process of risk management had been met, that risks were recognized, alert forms were filled in and entered into the risk register and the action plan had been made.</p> <p>Despite all the formally met conditions in the process of identifying risks and planning actions that will reduce them, we consider that this is an area that needs more attention in order to improve this process and thus contribute to achieving the set goals. We got an impression that everything is done only in order to satisfy formal requirements. Namely, while we were analysing documentation related to risk management process, we noticed the following:</p> <ul style="list-style-type: none"> - All risks were open even those that were identified in 2019; - One of the risks with score four had simply “disappeared”. Namely, the risk “Establish PIUs in the line ministries” was open in December 2020 and in July 2021 it was simply removed from the risk register without identifying whether it was closed or still open; - Further, a question may be asked: on the basis of which actions or measures the risk likelihood or impact has been changed? For example, in November 2019 the risk „Lack of inputs from the PIUs for full implementation of monitoring procedures” had an impact 3. In December 2020 impact of the same risk was 1 without identifying 				
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<p>what has been done in order to decrease the risk impact;</p> <ul style="list-style-type: none"> - Risks and mitigation measures were defined in an excessively general way. From the Risk Register and Risk Action Plan it could be identified what IPA body wants to achieve but not how specifically they are going to implement that; - Timelines, in most cases, were not specifically defined (mostly deadline is “continuously”); - Risk alert forms for the same risk had been updated several times without any significant change regarding the description, impact, likelihood or mitigating measures; - Within the Risk Action Plan the column „Responsibility assigned to the person/authority”, in most cases, says the “NIPAC Office”. Thus, there is no clear responsibility addressed. <p>Additionally, we found that Risk panel had been regularly held. The last one (November 2021) was well prepared. Part of the time was dedicated to education and improvement of knowledge in the field of risk management. However, we determined that Risk Manager from NIPAC Office had not attended this Risk Panel.</p>				
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Table 15

In 2019 AA carried out system audit that included all IPA bodies which constitute managing and operating structure for 2015-2017 SOPEES. Seven findings and recommendations had been given out of which three were implemented, two have been preliminary implemented and two partially implemented.

In system audit carried out during 2020 six findings and recommendations had been given out of which five were implemented and one preliminary implemented.

Within system audit conducted in 2021, five findings and recommendations were issued out of which two are implemented and three preliminary implemented.

Within system audit conducted in 2022, six findings and recommendations were issued out of which one is implemented and five not implemented.

➤ *Follow-up of findings issued within the audits of operations*

List of findings from the Report on the Audit of operations No. 3011-2-06-48 (January, 2022)					
No	Finding	Recommendation	Status as at beginning of March 2023	Priority level	New deadline for implementation
1.	<p>Inconsistency between the data presented into the Declaration of Expenditure and accounting records in PWA (IA) (with cut-off date 28th February 2021)</p> <p>(Details: See section 2.1)</p> <p>Body/-ies concerned by the finding: DMS/NFD and PWA (IA)</p> <p>According to the Framework Agreement between the Government of Montenegro and the European Commission on the arrangements for implementation of Union financial assistance to Montenegro under the Instrument for Pre-accession assistance (IPA II), Annex A, Clause 2 (3): “For the purpose of paragraph 2(a), the NAO, supported by the National Fund, shall in particular fulfil the following tasks: (a) draw up and submit to the Commission statements of expenditure detailing: (i) incurred and paid costs; (ii) and where applicable, include information on pre-financing in the payment requests, and certify that these result from reliable accrual based accounting systems as established in compliance with point (b), are accurate and based on verifiable supporting documents, and have been subject to verifications by the operating structures and by the management structure. At the closure of a programme, the NAO shall provide a final statement of expenditure; b) ensure that there is an accrual based accounting system which records and stores, in computerised form, accounting records for</p>	<p>We recommend to NAO (DMS/NFD) to pay attention during the process of preparation of the next declaration of expenditure and to declare as recognized costs exclusively and only the costs that have been incurred, paid and accepted by IAs and correspond to actual costs proven by supporting documents until the cut-off date of declaration, i.e. exclusively and only the costs from accounting system/records of IAs for the period for which declaration of expenditure is to be issued. We recommend to PWA (IA) to manage its accounting system and records in line with provisions of FWA, FA and prescribed procedures in order to satisfy the principle of accrual-based accounting system and provide the DMS/NFD with accurate, reliable and timely data.</p>	<p>Status: Implemented</p> <p>We monitored implementation during the previous period. According to the auditees’ responses and checks performed, we consider this finding closed.</p>	N/A	N/A

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<p>each action/activity/operation and which supports all the data required for drawing up payment requests and annual financial reports or statements. 12 Such system shall provide accurate, complete and reliable information in a timely manner and shall also include records of amounts recoverable, amounts recovered and amounts withdrawn following cancellation of all or part of the IPA II assistance for a programme or action.” According to the Financing Agreement between the Government of the Montenegro and the Commission of the European Communities concerning the 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies, Annex II General conditions, Article 5 (5): „Cost recognised in the accounting system maintained under the section 4 of this Article must have been incurred, paid and accepted and correspond to actual costs proven by supporting documents and shall be used when appropriate to clear pre-financing paid by the IPA II beneficiary under local contracts.“ By analysing and compering data from the Declaration of Expenditure and accounting records of Implementing Agencies, we determined that Deputy NAO issued DoE with cut-off date on 28th February 2021 and within it declared the amount of cost recognised by the IAs as follows: IA EU contribution IPA II beneficiary or other third party contribution Total contribution CFCU 1.537.618,54 299.572,61 1.837.191,16 PWA 34.509,24 6.089,87 40.599,10 Total 1.572.127,78 305.662,48 1.877.790,26 We noticed the following comment bellow the table in the DoE: “Under amount paid and cost recognised amount of one payment of PWA is included (8.940,00 €), for which transfer of EU funds is done in February, while payment to the contractor is done at the beginning of March. Eventhough cut-off date of RfFs is 28/02, in order to be consistent with bank balance on IPA account, amount of EU funds which is transferred to</p>				
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<p>PWA in February and for which payment is done in March is presented in the RfFs as cost recognised/amount paid.” Examining the operations/contracts for which costs have been declared in DoE as “cost recognised”, we determined that the amount of costs in accounting system of PWA (IA) on 28th February 2021 (cut-off date for DoE) does not match the amount of costs recognised which were declared in DoE. Namely, the amount of costs entered into the accounting system of PWA (account 4147) until 28/02/2021 was 25.699,10 EUR (EU contribution 21.844,24 + 3.854,87 national contribution) which is different from the data declared in DoE (amounts presented in the previous table). This difference in amount of 14.900,00 EUR is related to costs/payments for one service contract (global price). Namely, the amount of 5.960,00 EUR (which was pre-financing paid in October 2020) was entered into accounting system of PWA as cost (account 4147) on 3rd March 2021 while the amount of 8.940,00 EUR (which was final payment) was entered into accounting system as a cost on 9th March 2021 (date of payment execution). By further analysing the supporting documents related to this contract, we found that costs have been actually accepted by PWA during the February 2021 when IA received the Read & Approved Visa from PIU, performed appropriate controls for final payment, approved the invoiced amount by issuing and signing the relevant checklist and sent the Request for Funds to DMS/NFD. Also, we confirmed that transfer of EU part from IPA account to PWA was done in February. However, PWA did not enter this amount in the accounting system as cost until it was paid from their side (09/03). This does not correspond with principles of accrual-based accounting system and also is not in line with prescribed accounting procedures in MoP (V 2.0), i.e. time/moment of entering costs into the</p>				
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	<p>accounting system. Also, it should be noticed that at 13 the moment of submission of the Declaration of Expenditure (within the Request for Funds Instalment No.2) to the European Commission (on 29th March 2021) all costs declared as recognised have been actually incurred, paid and accepted and corresponded to actual costs proven by supporting documents but in relation to the cut-off date which was set-up regarding this DoE, these costs did not satisfy all mentioned conditions.</p> <p>Previously mentioned omissions led to the situation that data from Declaration of Expenditure is not consistent, i.e. does not match in full with data from accounting system/records from IAs (in this case data related to costs for operations/contracts for which PWA is IA) at the same date (cut-off date). The amount of costs recognized for certain period which are declared in the declaration for expenditure must be equal to the amount of costs entered into accounting system of IAs for that period of time, i.e. costs which have been incurred, paid and accepted and correspond to actual costs proven by supporting documents. On the other side, IAs should manage their accounting records and system in line with provisions of FWA, FA and prescribed procedures in order to satisfy the principle of accrual-based accounting system and provide the DMS/NFD with accurate, reliable and timely data.</p>				
2.	<p>Violation of rules and procedure for publication of corrigendum to the tender dossier (Details: See section 2.1)</p> <p>Body/-ies concerned by the finding: PWA (IA)</p> <p>According to the PRAG (Version 2019.0), Section 3.4.1.2. Publication of contract notices: „If the contracting authority, either on its own initiative or</p>	<p>We recommend improving controls within the tendering and evaluation process in order to ensure timely implementation of the whole procedure with respecting all the rules and provisions of relevant regulations.</p>	<p>Status: Implemented</p> <p>Not relevant anymore fore SOPEES. In the previous period, we did not encounter the same errors. We will monitor control activities in future audits.</p>	N/A	N/A

<p>in response to a request for clarification from a tenderer, amends information in the contract notice, it must send a corrigendum using the appropriate template (Annex A5b) and complying with the deadlines set up in the publication guidelines (see Annex A11e) to the relevant services of the European Commission for publication. The corrigendum must be published not later than 5 days before the original submission deadline. Be aware that the corrigendum has to be sent to the relevant service of the European Commission not later than 10 days before the expected date for its publication.”</p> <p>Also, according to the Annex a11e_publication_guidelines_en.docx to PRAG: “Time limits depending on the submission deadline: For service contracts: Corrigenda and clarifications should be published at the latest 5 days before the deadline to allow candidates to take changes into account and must therefore not be published after the deadline, even if the corrigendum postpones this deadline.”</p> <p>By reviewing and analysing documentation related to tender for "Preparation of Main Design and Supervision of works for Adaptation of the school buildings for accessibility and movement of disable persons and persons with mobility difficulties, Montenegro", publication reference PWA/MNE/IPAII/SER/01-3268/1, we determined the following deficiency: - the Corrigendum no1 to the tender dossier was not issued and published in line with provisions of PRAG, section 3.4.1.2 and Annex a11e. Namely, according to the Service Contract Notice, point 18, and Instructions to tenderers, point 8, „Tenders must be sent to the contracting authority before 24.09.2019 at 15:00 hrs “. On 19th September 2019 (TN Ares(2019)5874825) the IA (PWA) sent to the DEU the proposal of Corrigendum No. 1 to the Tender dossier (with relevant Explanatory note) on approval. This Corrigendum was approved by DEU</p>				
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	<p>on 20th September 2019 (TN Ares(2019)5885053). The purpose of issuing corrigendum was to prolong the deadline for submitting tenders (from originally set up date 24th September 2019 to 1st October 2019). According to the reviewed documents, we found that Corrigendum No. 1 to the Tender dossier was published, i.e. sent to the tenderers (in this case simplified procedure was applied) on 23th September 2019 which is just one day before the original submission deadline. Bearing in mind the aforementioned provisions of PRAG and the fact that original deadline for submitting tenders was 24th September 2019, it is evident that relevant rules which are related to the publication of corrigendum were not respected in this case. Violation of any rules and procedures within the procurement process can cause suspicion and loss of reputation, possible lawsuits that can slow down or completely stop the contracting and implementation process. In order to prevent this, it is necessary respecting all the rules and provisions of relevant regulations.</p>				
3.	<p>Inappropriate issuing of provisional acceptance certificate (Details: See section 2.1)</p> <p>Body/-ies concerned by the finding: CFCU (IA), MED (PIU), MESCS (PIU), MJHMR (PIU)</p> <p>According to the Supply Contract for European Union external actions No CFCU/MNE/087, Special Conditions Article 25.2: "The inspection and testing prior to the provisional acceptance will take place at the locations where equipment is delivered, installed and put into operation." Article 31 of Special conditions stipulates, inter alia, the following: "The supplies shall be taken over by Contracting Authority when they have been delivered in</p>	<p>We recommend improving controls in order to ensure proper and effective implementation of the whole procedure regarding the provisional acceptance of supplied equipment with respecting all the rules and provisions of signed contracts and relevant regulations. CA and PIU should provide conditions that all delivered equipment be installed, properly tested and put into operation prior to the provisional acceptance. We recommend that all supplied equipment to be</p>	<p>Status: Preliminary Implemented</p> <p>According to the answers of the audit subjects and the performed checks, we consider that this finding is closed. In the future, we will carry out additional checks, due to changes in the structure of the state administration.</p>	N/A	N/A

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<p>accordance with the Contract, have satisfactorily passed the required tests, and a certificate of provisional acceptance has been issued or is deemed to have been issued.” By reviewing and analysing documentation related to this supply contract, we determined that ICT equipment had been taken over by CA and Beneficiary Institution/PIU (MED-former MLSW) and Provisional Acceptance Certificate (PAC) had been issued prior then the all delivered equipment has been installed, put into operation and satisfactorily passed the required tests. Based on the Provisional Acceptance Certificate, date of acceptance 22.11.2019, significant portion of supplied equipment have not been even unpacked. According to the remarks from PAC and OTS verification report, the following equipment had not been unpacked at the moment of performing OTS: 5 PCs, 4 notebook computers, 1 video projector and projection screen, 3 MF printers, 3 NAS devices, 1 photo camera, 1 TV, 1 binding machine, 1 INKJET A3 printer and 3 external hard drives (total value of this equipment is 13.920,00 EUR which presents around 15% of total purchase). Although previously mentioned equipment was not even unpacked, the PAC was issued and into it was noted the following: „All of the above-mentioned items have been delivered, installed, tested and found compliant with the technical specifications of the supply contract “. Obviously, the Articles 25.2 and 31 of the Special Conditions were not respected in this case, i.e. not all equipment have been installed, tested and put into operation prior to the provisional acceptance. Analysing the Final Acceptance Certificate, which was issued in December 2020, and related OTS verification checklist, we found that even then (one year later) some equipment (1 PC, 1 Notebook, 1 printer, 1 NAS) has still not been unpacked and was not in use. Additionally, during the performance of audit activities and controls (December 2021), we</p>	<p>used for the purpose which was originally set up, i.e. to be used by IPA II bodies constituting Operating Structure for Employment, Education and Social Policies Sector. Otherwise, the sustainability of this supply contract is questionable and consequently costs related to this equipment.</p>			
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	<p>determined that some of the supplied equipment is not used by the OS staff. For example, NAS devices which were supplied for PIU in MESCS (former PIUs in the Ministry of Education and Ministry of Science) are not used by this PIU. Also, equipment which was supplied for PIU MJHMR (former Ministry of Human and Minority Rights) now is not used by this PIU. Bearing in mind the originally purpose of the contract as well as its title "Equipping the Operating Structure for Employment, Education and Social Policies Sector" and the fact that a part of supplied equipment is not used by the OS for SOPEES, the sustainability of this supply contract is questionable.</p> <p>By non-respecting the provisions of Special conditions related to inspection and testing of all supplied equipment as well as to issuing the provisional acceptance, the CA has undertaken the potential risk that the received equipment is not working properly and cannot be put into operation. Taking into account that some equipment was not unpacked even one year after the purchase, we are inclined to conclude that the requirement to purchase equipment was not done in accordance with actual needs of the Operating Structure. Additionally, considering that certain equipment is 18 not used by OS staff, the sustainability of this supply contract is questionable and consequently the justification of related costs.</p>				
4.	<p>Balance payment executed in amount different from the value of equipment for which Provisional Acceptance Certificate has been issued (Details: See section 2.1)</p> <p>Body/-ies concerned by the finding: CFCU (IA), NFD</p> <p>According to the Article 1 of Supply Contract for</p>	<p>We recommend improving internal controls within the payment process in order to ensure that all payments are correct and made in accordance with relevant supporting documents. Established controls should be real and effective, not just formal.</p>	<p>Status: Implemented</p> <p>According to the answers of the audit subjects and the performed checks, we consider that this finding is closed. We will monitor control activities in future audits.</p>	N/A	N/A

	<p>European Union external actions No CFCU/MNE/087, which was signed on 7th August 2019,</p> <p>“The subject of the contract shall be the supply, delivery, unloading, installation and after-sales service (for the relevant items) by the Contractor of the following supplies:</p> <p>LOT 1 – Computers and Accessories (ICT Equipment):</p> <table><tr><th>Item</th><th>Description</th><th>Quantity</th></tr><tr><td>1.</td><td>PERSONAL COMPUTER (PC)</td><td>37</td></tr><tr><td>2.</td><td>MONITOR TYPE 1 – same brand as PC</td><td>13</td></tr><tr><td>3.</td><td>MONITOR TYPE 2 – same brand as PC</td><td>24</td></tr><tr><td>4.</td><td>NOTEBOOK COMPUTER (PC)</td><td>21</td></tr><tr><td>5.</td><td>MFP LASER WITH ADF</td><td>15</td></tr><tr><td>6.</td><td>VIDEO PROJECTOR</td><td>2</td></tr><tr><td>7.</td><td>PROJECTION SCREEN</td><td>2</td></tr><tr><td>8.</td><td>MFP LASER WITH ADF, STAPLE AND PUNCH FINISHER</td><td>1</td></tr><tr><td>9.</td><td>NETWORK ATTACHED STORAGE (NAS)</td><td>6</td></tr></table>	Item	Description	Quantity	1.	PERSONAL COMPUTER (PC)	37	2.	MONITOR TYPE 1 – same brand as PC	13	3.	MONITOR TYPE 2 – same brand as PC	24	4.	NOTEBOOK COMPUTER (PC)	21	5.	MFP LASER WITH ADF	15	6.	VIDEO PROJECTOR	2	7.	PROJECTION SCREEN	2	8.	MFP LASER WITH ADF, STAPLE AND PUNCH FINISHER	1	9.	NETWORK ATTACHED STORAGE (NAS)	6			
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10.	RECK MONTABLE SERVER	1
11.	DUPLEX DOCUMENT SCANNER DEVICE	5
12.	TABLET	3
13.	PHOTO CAMERA	2
14.	FLAT TV TYPE 1	3
15.	FLAT TV TYPE 2	2
16.	EXTERNAL HARD DRIVE	3
17.	CORDLESS PHONE	4
18.	INKJET A3 + Printer	2
19.	BINDING MACHINE A4	1
20.	PAPER SHREDDER	1

Article 3 of this Supply Contract stipulates the following: “3.1 The price of the supplies shall be that shown on the financial offer (specimen in Annex IV). The total maximum contract price shall be EUR 89.985,00. 3.2 Payments shall be made in accordance with the general and/or special conditions (Articles 26 to 28).” Article 26.5 of Special Conditions prescribe the following: “In order to obtain payments, the contractor must forward to the authority referred to in paragraph 26.1 above: 21 a) for the 40% pre-financing, by derogation from article 26.5 of the general conditions no prefinancing guarantee is required. b)

<p>for the 60% balance, the invoice(s) together with the request for provisional acceptance of the supplies.” Annex I - General Conditions, Article 26.6, prescribes the following: “Where only part of the supplies has been delivered, the 60% payment due following partial provisional acceptance shall be calculated on the value of the supplies which have actually been accepted and the security shall be released accordingly.” Previously mentioned provisions related to the balance payments for supply contracts are properly defined in IPA II Manual of Procedures (V 2.0), Chapter Financial Management. It is prescribed that, inter alia, balance payment of 60% of the supply contract price should be made following provisional acceptance of the supplies. Based on documentation obtained and audit activities performed related to confirming the legality and regularity of expenditure within this operation/contract, we determined that balance payment was not executed in line with the provisional acceptance of the delivered supplies. We found that pre-financing payment was made in line with provisions of this supply contract in amount 35.994,00 EUR which is 40% of the total price of the contract. After issuing the Provisional Acceptance Certificate, IA executed balance payment of 60% of the contract price, i.e. paid 53.991,00 EUR. However, we found that balance payment was not executed in appropriate amount. Reviewing the documentation related to balance payment, we determined that Provisional Acceptance Certificate, date of acceptance 22nd November 2019, is not fully consistent with provisions of this Supply Contract. Namely, according to the Article 1 the subject of this contract was supply, delivery, unloading, installation of 20 items of various ICT Equipment. However, Provisional Acceptance Certificate was issued for 19 items in total and it was signed by Contractor, Contracting Authority and Beneficiary Institution.</p>				
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Comparing items which were contracted with items for which Provisional Acceptance Certificate was issued, we determined that item no 20 from Article 1 of the Contract is missing. Moreover, we determined that the Final Acceptance Certificate was issued in December 2020 and also for 19 items. Analysing the contract and it's all relevant annexes, we determined that the total value of items for which Provisional Acceptance Certificate was issued is 88.965,00 EUR. In accordance with this and considering that pre-financing was made in amount of 35.994,00 EUR, the balance payment should be in the amount 52.971,00 EUR. Also, we would like to emphasize that controls related to balance payment were not appropriate nor in the CFCU, neither in the NFD. The invoiced amount was not consistent with the value of ICT equipment for which Provisional Acceptance Certificate was issued. The checklist for balance payment was not properly filled in bearing in mind that nobody from the internal control system figured out the fact that data from Provisional Acceptance Certificate is not in line with the contractual stipulations. Accordingly, balance payment was not made in line with total value of items from Provisional Acceptance Certificate. The total amount of payments made regarding Supply contract CFCU/MNE/087 is greater than it should be according to the value of equipment for which Provisional Acceptance Certificate was issued.				
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Table 16

Within audit of operations conducted in 2021, four findings and recommendations were issued out of which three are implemented and one preliminary implemented

Within audit of operations conducted in 2022, three findings and recommendations were issued and are not implemented.

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

Not applicable.

8. OTHER INFORMATION

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

Not applicable.

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

Not applicable.

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

Not applicable.

9. OVERALL LEVEL OF ASSURANCE

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

The assurance on the proper functioning of the management and control system regarding the 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES) is based on the combined results of both the system audits (system assessment – please see section 4 above) and the audits of operations (please see section 5).

As a results of the system audit and conducted follow-up activities, the management, control and supervision system established for IPA II 2015-2017 SOPEES is assessed as „Works, but some improvement(s) are needed“. During the audit of operations we determined that recognized and declared costs within Direct Grant Contract included VAT, we consider cost ineligible for financing from the Programme. Based on documentation obtained, we couldn't determine exact amount of VAT included in the recognized costs for selected sub-grant contracts within the 2nd public call, so we had limitation in determining the total amount of reported/declared VAT, i.e. total amount of ineligible costs. The results of the audit of operations led to the situation that we are not in a position that we can make a conclusion and we are not able to express an audit opinion on the legality and regularity of declared expenditure. Thus, we consider that for this part it is appropriate to issue disclaimer of opinion.

The assurance on the accounts is based on the results of the Audit of accounts as described in section 6.3 of this AAAR. Therefore, based on work performed and due to the limitation of scope described, we are not able to make a conclusion that all accounting information presented in the Annual Financial Report for the financial/accounting year 2022 regarding 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES), are complete, accurate and veracious in all material aspects. Namely, we gained reasonable assurance that amounts of Total Amounts Contracted, Total Amount De-committed on closure, Total Amounts Disbursed, Total Open Pre-financing, Recovery context and Bank Balances (EU contribution) correspond to the amounts specified in the verified documents collected from NF and IAs (CFCU and CPA), except data presented in AFR for 2022 within column 4 – Total Amount Contracted and 8- Total Amount Disbursed. However, when it comes to Total Costs Recognised, we are not able to express an audit opinion on accuracy and completeness of this item because it contains the amount of costs recognized which were reported in relation to Direct Grant Contract and AA was not able to completely carry out audit of operations and confirm the legality and regularity of declared expenditures regarding Direct Grant Contract. Thus, it is appropriate to issue disclaimer of opinion on the reliability of Annual Financial Reports or Statements/Annual Account.

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

Not applicable.

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

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

During the Audit of accounts we determined that data, presented in AFR for 2022 in columns 4. Total Amount Contracted and 8. Total Amount Disbursed, were not correct. Namely, we determined that item 4 - Total Amount Contracted, per sources of financing (EU contribution, National contribution and Other sources), was not correctly reported in AFR because it is not in line with amounts which we found in registers and evidences of IAs and that recoveries were not adequately treated through CFCU's accounting system and accordingly the amount of 8 - Total Amount Disbursed was not correctly presented in AFR for 2022. Therefore, this correction must be implemented through IA's accounting system and included in next annual financial report.

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(2015) 9051 09/12/2015 CRIS decision No. 2015/037-895	Multi-annual action programme for Montenegro on Employment, Education and Social policies	8.600.356,81	976.877,84	11.35	57	7	/ ¹¹	/	/	/	/	/	/

¹¹ Due to limitation of scope, the AA was not in a position to completely perform audit work and determine the exact amount of irregular expenditure in Stratum 1