



MONTENEGRO
AUDIT AUTHORITY

No:3011-4-06-200
Date: 15th March 2023

ANNUAL AUDIT ACTIVITY REPORT
OF THE AUDIT AUTHORITY FOR
ANNUAL COUNTRY ACTION PROGRAMME FOR THE MONTENEGRO FOR
THE YEAR 2014, ANNUAL COUNTRY ACTION PROGRAMME FOR THE
MONTENEGRO FOR THE YEAR 2016, ANNUAL COUNTRY ACTION
PROGRAMME FOR THE MONTENEGRO FOR THE YEAR 2017, ANNUAL
COUNTRY ACTION PROGRAMME FOR THE MONTENEGRO FOR THE YEAR
2018 AND ANNUAL COUNTRY ACTION PROGRAMME FOR THE
MONTENEGRO FOR THE YEAR 2020

FOR THE PERIOD FROM 01 JANUARY UNTIL
31 DECEMBER 2022

Podgorica, March 2023

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List of abbreviations

AA	Audit Authority of Montenegro
AAAR	Annual Audit Activity Report
AAO	Annual Audit Opinion
AMD	Annual Management Declaration
CAP	Annual Country Action Programme for Montenegro
CFCU	Central Finance and Contracting Unit
DMS	Directorate for Management Structure
EC	European Commission
EU	European Union
EUD	Delegation of the European Union
IA	Implementing Agency
ICFR	Internal Control Framework Requirement
IPA II	Instrument for Pre-Accession Assistance II perspective
IPA	Instrument for Pre-Accession Assistance
LTEC	Long Term Employment Contract
MCSS	Management, Control and Supervision System
MF	Ministry of Finance
MESPU	Ministry of Ecology Spatial Planning and Urbanism
MoP	Manual of Procedures
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
CPA	Capital Projects Administration
TEC	Temporary Employment Contract
WLA	Work Load Analysis

1. INTRODUCTION

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

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

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

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

The Audit Authority is responsible for verifying:

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

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

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

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

Pursuant to Article 3(f) of the Framework Agreement between Montenegro and the European Commission on the arrangements for implementation of Union financial assistance to Montenegro under the Instrument for Pre-accession Assistance (IPA II), reference period for

this Annual Audit Activity Report is financial year and covers the period from 1st January to 31st December 2022.

In 2022 the Audit Authority carried out system audit for CAP 2014, CAP 2016, CAP 2017, CAP 2018 and CAP 2020. In the period covered by this report, the AA conducted audits of all declarations on expenditure declared by NAO to EC for those Programmes (the AA conducts audit of operation on expenditure declared by NAO to the EC through the declaration on expenditure). The Audit Authority conducted audits of operations in 2022 for CAP 2014 and for CAP 2018.

In the reference period, the total amount for CAP 2014 (2014 IPA/2014/032-022) of 2,140,956.13€ for 6 contracts was declared to the European Commission Statement of Expenditure No 4 from November 28th, 2022.

The total amount for CAP 2018 (CRIS decision no IPA/2018/040-218) for 4 contracts was declared to the European Commission Statement of Expenditure No 3 from 3th October 2022 in the total amount of 371,413.47€.

In the period February - March 2023 the AA performed follow-up of the findings and recommendations given in the course of audit conducted in the period covered by this report as well as follow-up of the findings and recommendations given in the course of previous audits (Follow-up was performed as a separate activity before issuing the AAAR and the AAO), as well as the Audit of accounts for CAP 2014, CAP 2016, CAP 2017, CAP 2018 and CAP 2020.

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

The report covers Annual Country Action Programme for Montenegro for the year 2014 (IPA/2014/032-022; IPA/2014/032-803), Annual Country Action Programme for Montenegro for the year 2016 (IPA/2016/037-896), Annual Country Action Programme for Montenegro for the year 2017 (IPA/2017/040-216; IPA/2017/039-816), Annual Country Action Programme for Montenegro for the year 2018 (IPA/2018/040-218; IPA/2018-040-220) and Annual Country Action Programme for Montenegro for the year 2020 (IPA/2020/042-142; IPA/2020/042-145).

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

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

The total estimated cost of Programme CAP 2014 is EUR 24,515,340 and the maximum Union contribution to this Programme is set at EUR 21,288,220.

By signing Addendum of the Financing Agreement for the Annual Country Programme for Montenegro (Objective 1 - part 1 and Objective 2- part 1) 2014/032-022 and 2014/032-803, for the year 2014 on 30th July 2018, the budget for Action 12 "Rehabilitation of the railway section Kos-Trebešica" is increased by 1,046,068.26 (national co-financing). According to that, the total estimated cost of Programme CAP 2014 is EUR 25,561,408.26 and the

maximum Union contribution to this Programme is set at EUR 21,288,220. Closing of the Program CAP 2014 will be in 2023.

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

Financing Agreement for the Annual Country Action Programme for Montenegro for the year 2016 was signed on 22nd December 2017. The total estimated cost of Programme CAP 2016 is EUR 26,544,530 and the maximum Union contribution to this Programme is set at EUR 22,948,900.

By signing Addendum to the Financing Agreement for the Annual Country Action Programme for Montenegro for the year 2016 on 31st July 2020 CAP 2016 allocates EUR 11,385,975 for capacity building and acquis related activities for the sector Environment and Climate Action and EUR 6,288,900 for strengthening the Competitiveness and innovation sector of Montenegro. Within the education employment and social policies sector, EUR 5,334,025 is allocated for Support to COVID-19 crisis response in Montenegro, following the outbreak of worldwide COVID-19 pandemic (Detect Management).

According to that, the total estimated cost of Programme CAP 2016 covered by Financing Agreement under indirect management is EUR 20,316,265 and the maximum Union contribution to this Programme is set at EUR 17,614,875.

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

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

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

Financing Agreement for the Annual Country Action Programme for Montenegro for the year 2018 was signed on 2nd December 2019. The total estimated cost of Programme CAP 2018 is EUR 38,777,248,80 and the maximum Union contribution to this Programme is set at EUR 36,186,977.

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

By signing Addendum N°2 to the Financing Agreement for the Annual Country Action Programme for Montenegro for the year 2018 on 22nd February 2021 the amendment of the result 7 under action *Strengthening of quality and approach to health and social services* is

foreseen which refers to procurement of the device which conducts simultaneous analyses of a great number of respiratory samples, in the amount of 800,000 EUR.

The overall value of the amended program is 38,247,865 EUR out of which allocated EU funds amount to 36,186,977 EUR, while it is necessary to allocate 2,060,888 EUR for the needs of national co-financing from the budget.

Within CAP 2020, 3 actions shall be implemented by indirect management which covers following policy areas: Democracy and Governance (1), Competitiveness and Innovation, Agriculture and Rural Development (1) and Education, Employment and Social Policies (1).

Financing Agreement for the Annual Country Action Programme for Montenegro for the year 2020 was signed on 31th July 2020. The total estimated cost of Programme CAP 2020 is EUR 24,435,734.94 and the maximum Union contribution to this Programme is set at EUR 22,050,000.

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

- 1) The National IPA Co-ordinator (NIPAC)
- 2) The National Authorising Officer (NAO)
- 3) The Management structure:
 - The National Fund
 - The NAO Support Office
- 4) The Operating Structure:
 - The NIPAC Office
 - Implementing Agencies: Central Finance and Contracting Unit (CFCU) and Capital Projects Administration (CPA)
 - PIUs of the line ministries: (Ministry of Finance, Ministry of Economic Development and tourism, Ministry of Ecology Spatial Planning and Urbanism and Ministry of Capital Investments for CAP 2014); (Ministry of ecology spatial planning and urbanism and Ministry of Economic Development and Tourism for CAP 2016); (Ministry of Finance, Ministry of Capital Investments, Ministry of Health and Ministry of Ecology Spatial Planning and Urbanism for CAP 2017); (Ministry of Justice, Ministry of Interior, Ministry of Finance and Ministry of Health for CAP 2018); (Ministry of Labor and Social Welfare and Ministry of economic development and tourism for CAP 2020).

Tabular view is shown in the table below:

Body	Role	Programmes				
		CAP 2014	CAP 2016	CAP 2017	CAP 2018	CAP 2020
NIPAC Office	OS/NIPAC Office	X	X	X	X	X
NAO/NAOSO	MS	X	X	X	X	X
NFD	MS	X	X	X	X	X
CFCU	OS/IA	X	X	X	X	X
CPA	OS/IA	X	X	X	X	
Ministry of Finance	OS/PIU	X		X	X	
Ministry of Economic Development and tourism	OS/PIU	X	X			X
Ministry of Ecology Spatial Planning and Urbanism	OS/PIU	X	X	X		
Ministry of Capital Investments	OS/PIU	X		X		
Ministry of Justice	OS/PIU				X	
Ministry of Interior	OS/PIU				X	
Ministry of Health	OS/PIU			X	X	
Ministry of Labor and Social Welfare	OS/PIU					X

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

The AAAR was prepared as a result of audit activities carried out during the 2022. During 2022 the AA carried out system audit for CAP 2014, CAP 2016, CAP 2017, CAP 2018 and CAP 2020 and audits of operations for CAP 2014 and for CAP 2018. During performance of system audit in 2022, Audit Authority performed follow-up of the findings and recommendations given in the course of previous audits. Results of follow-up are covered in the system audit report.

In the period from January – March 2023 AA performed follow-up of the findings and recommendations given in the course of audit conducted in the period covered by this report well as follow-up of the findings and recommendations given in the course of previous audits (Follow-up was performed as a separate activity before issuing the AAAR and the AAO), as well as the audit of the annual financial reports for 2022.

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

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

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

2. SUBSTANTIAL CHANGES IN MANAGEMENT AND CONTROL SYSTEM

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

In this AAAR we described significant personal and organizational 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:

- *Ms Ivana Maksimović has been resolved from the position Deputy NAO at personal request within Directorate for Management Structure, Ministry of Finance. Change occurred on March 7th 2022.*
- *Ms Anja Amidžić officially appointed on the position of the Director General within Directorate for Management Structure, Ministry of Finance. Change occurred on the Government session held on April 20th 2022.*
- *Mr Janko Odović, as State Secretary in the Ministry of Finance, has been resigned on the Government session held on April 28th 2022 from the function of the National Authorizing Officer/NAO. Change occurred 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 has been designated to perform the function of the National Authorizing Officer/NAO. Change occurred on the Government session held on July 1st 2022.*
- *Ms Zorka Kordić has been resigned from the position of Deputy Chief negotiator – National IPA Coordinator. Change occurred on the Government session held on July 1st 2022.*
- *Mr Aleksandar Mašković has been designated to perform the function of the National IPA Coordinator. Change occurred on the Government session held on July 1st 2022.*
- *Ms Marija Vukčević has been resigned from the position of Head of IA – CFCU. Change occurred on Government session held on October 6th 2022.*
- *Ms Jelena Davidović has been appointed as acting Director General – Head of IA CFCU. Change occurred on Government session held on October 6th 2022.*
- *Ms Anja Amidžić has been appointed as acting Director General of DMS. Change occurred on Government session held on October 6th 2022.*
- *Ms Mila Kasalica, as State Secretary in the Ministry of Finance, has been resigned on the Government session held on December 8th 2022 from the function of the National Authorizing Officer/NAO. Change occurred on Government session held on December 8th 2022.*
- *Mr Aleksandar Mašković has been resigned on the Government session held on December 8th 2022 from the function of the National IPA Coordinator. Change occurred on Government session held on December 8th 2022.*
- *Ms Milica Abramović Radivojkov has been appointed on the position of the Head of Division for Coordination of EU assistance/Head of NIPAC Office. Change occurred in January 2022.*
- *Mr Sreten Jakić appointed to perform the function of the Director General/SPO within MJHMR. Change occurred on the Government session held on February 2nd 2022.*
- *Mr Sreten Jakić has been resigned from the position of the Director General/SPO within MJHMR. Change occurred in June 2022.*
- *Mr Nikola Veljović has been resigned from the position of the acting Director General (SPO) of the Ministry of the Capital Investments. Change occurred in August 2022.*
- *Ms Lidija Mašanović, appointed as SPO within Ministry of Justice by the decision from August 1st 2022.*

- *Mr Esmin Bećović started his engagement as Director of Capital Project Administration (IA). Change occurred on August 3rd 2022.*
- *Ms Irena Vragić appointed to perform the function of the Director General/SPO within MJHMR. Change occurred on September 1st 2022.*
- *Mr Šučo Orahovac, Director General, SPO of the PIU Ministry of Finance has been resigned by the Government decision on September 22nd 2022. Change occurred on September 22nd 2022.*
- *Ms Ana Banović appointed as new SPO of the Ministry of Finance, Head of the Department for European Integration, International Cooperation and Programming and Implementation of the EU funds. Change occurred on October 1st 2022.*
- *Ms Ivana Janković Mijanović appointed as the SPO/acting Director General of the Directorate for European Integration and EU funds within Ministry of Economic Development and Tourism. Change occurred by Government decision on October 13th 2022.*
- *Ms Marina Izgarević has been resolved from the position of SPO/ General Director of Directorate for Projects and Information Systems within Ministry of Ecology, Spatial Planning and Urbanism. Change occurred by Government decision on November 2nd 2022.*

Organizational changes:

With the formation of the new Government of Montenegro, the Decree on the organisation and manner of work of the state administration has been adopted on May 27th 2022. The mentioned Decree has significantly changed the organization of the entire state administration, reflecting on IPA units within reorganized ministries.

Change occurred on May 27th 2022, and EC has been informed on the change occurred through the NAO Announcement on functional/personal changes in the system of IPA indirect management on July 7th 2022.

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

All the changes were assessed by Audit Authority and we can confirm that all changes follow applicable regulations.

The changes that occurred in MCSS in 2022 do not have an impact on the audit work.

3. CHANGES TO THE AUDIT STRATEGY

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

Audit Strategy 2022–2024 for the Annual Country Action Programme for Montenegro for the year 2014, Annual Country Action Programme for Montenegro for the year 2016, Annual Country Action Programme for Montenegro for the year 2017, Annual Country Action Programme for Montenegro for the year 2018 and Annual Country Action Programme for Montenegro for the year 2020 was prepared in November 2021. The Deputy Auditor General of Audit Authority approved it and sent it to the European Commission, with a copy to National Authorising Officer, on November 30th 2021.

There were no changes in the audit strategy.

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

Not applicable.

4. SYSTEMS AUDITS

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

In accordance with the Audit Strategy 2022-2024 for the IPA II 2014-2020 for the Annual Country Action Programme for Montenegro for the year 2014 (hereinafter: CAP 2014), Annual Country Action Programme for Montenegro for the year 2016 (hereinafter: CAP 2016), Annual Country Action Programme for Montenegro for the year 2017 (hereinafter: CAP 2017), Annual Country Action Programme for Montenegro for the year 2018 (hereinafter: CAP 2018) and Annual Country Action Programme for Montenegro for the year 2020 (hereinafter: CAP 2020) approved by Deputy Auditor General and submitted to EC on November 30th 2021, the AA of Montenegro conducted an audit of the management, control and supervision system (hereinafter MCSS) established in the bodies of Managing and Operating structure: CFCU (Implementing Agency), CPA (Implementing Agency), National Fund Division (NFD) and NAO /NAOSO.

4.2 Summary table of the audits carried out

During the strategic audit planning (Audit Strategy 2022-2024 for the IPA II 2014-2020 for the CAP 2014, CAP 2016, CAP 2017, CAP 2018 and CAP 2020 (November 2021) for the purpose of defining audit areas the Audit Authority performed risk assessment for each body of CAP 2014, CAP 2016, CAP 2017, CAP 2018 and CAP 2020 at the key requirement/process/function

level (further: process level). We identified and assessed issues and processes that are significant for the audit and that could be common for all or several bodies that are participating in management and implementation of programme.

Based on results of risk assessment performed during preparation of the Audit Strategy 2022-2024 we decided that during 2022 bodies whose categorized risk score is medium will be audited. According to the above mentioned, audit included the following bodies: CFCU (Implementing Agency), CPA (Implementing Agency), National Fund Division (NFD) and NAO/NAOSO, and with the general audit objective to verify the effective and efficient functioning of the management, control and supervision system.

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

- CFCU: Control Activities.
- CPA: Control Activities.
- NFD: Control Activities.
- NAO/NAOSO: Control Activities.

Also, in Audit strategy 2022-2024 we stated that during the individual audit engagement planning auditors would define the key functions/processes within each key requirement which will be encompassed by the appropriate audit activities in particular body in 2022. The scope of each individual audit will depend on level of implementation of Programmes at the time of audit performing. In addition, follow-up of recommendations from the previous system audits is going to be conducted within the planned system audits for 2022.

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

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

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

- CFCU/IA: Control Activities

3 (a) Selection and development of control activities: (i), (ii), (iii), (iv), (v), (vi), (vii), (ix), (x), (xi), (xii) and (xiii);

- CPA/IA: Control Activities

3 (a) Selection and development of control activities: (i), (ii), (iii), (iv), (v), (vi), (vii), (ix), (x), (xi), (xii) and (xiii);

➤ NFD: Control Activities

3 (a) Selection and development of control activities: (i), (v), (vi), (vii), (ix), (x), (xi) and (xiii);

➤ NAO and NAO Support Office: Control Activities

3 (a) Selection and development of control activities: (viii), (xi) and (xiii)

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

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

Results of performed follow-up are 4 closed findings.

Summary of the audit carried out:

Audit period	Programme (CCI and title)	Audit Body	Audited Body(ies)	Date of the audit	Scope of the audit	Principal findings and conclusions	Problems of systemic character and measures taken	Estimated financial impact (if applicable)	State of follow-up (closed/or not)
01.01.2022-31.12.2022	Annual Country Action Programme for Montenegro for the year 2014 – C (2014) 9387	Audit Authority of Montenegro							
	Annual Country Action Programme for Montenegro for the year 2016 – C (2016)8226		CFCU	July to December 2022	3 (a) Selection and development of control activities: (i), (ii), (iii), (iv), (v), (vi), (vii), (ix), (x), (xi), (xii) and (xiii);	Failure to follow procedures- CFCU/MNE/141, CFCU/MNE/060 and CFCU/MNE/176 <i>IFCR 3(a)</i> For details please see further below the section 4.4 of this AAAR.	n/a	n/a	Open
	Annual Country Action Programme for Montenegro for the year 2017 – C (2017/040-								

Annual Audit Activity Report for CAP 2014;2016;2017;2018;2020

	216;2017/03 9-816)		CPA	July to December 2022	3 (a) Selection and development of control activities: (i), (ii), (iii), (iv), (v), (vi), (vii), (ix), (x), (xi), (xii) and (xiii);	Inadequate performed control activities ICFR: 3(a); For details please see further below the section 4.4 of this AAAR.	n/a	n/a	Open
	Annual Country Action Programme for Montenegro for the year 2018 (No (CRIS) IPA/2018/04 0-218 and IPA/2018- 040-220)		NFD	July to December 2022	3 (a) Selection and development of control activities: (i), (v), (vi), (vii), (ix), (x), (xi) and (xiii);	Lack of audit trail ICFR 3(a) For details please see further below the section 4.4 of this AAAR.	n/a	n/a	Open
	Annual Country Action Programme for Montenegro for the year 2020 (No (CRIS) IPA/2020/04 2-142 and IPA/2020- 042-145)								

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

During the strategic audit planning (Audit Strategy 2022-2024 for the IPA II 2014-2020 for the CAP 2014, CAP 2016, CAP 2017, CAP 2018 and CAP 2020) for the purpose of defining audit areas the Audit Authority performed risk assessment for each body of those programmes at the key requirement/process/function level (further: process level). We identified and assessed issues and processes that are significant for the audit and that could be common for all or several bodies that are participating in management and implementation of programme.

Based on results of risk assessment performed during preparation of the Audit Strategy 2022-2024 we decided that during 2022 bodies whose categorized risk score is medium will be audited. According to the above mentioned, audit included the following bodies: CFCU (IA), CPA (IA), NFD and NAO/NAOSO, and with the general audit objective to verify the effective and efficient functioning of the management, control and supervision system.

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

Each system audit includes the follow-up of previous years' system audits.

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

<i>IPA Body</i> <i>Audit area</i>	<i>CFCU</i>	<i>CPA</i>	<i>NFD</i>	<i>NAO end NAO Support Office</i>
<i>3(a)</i>	<i>X</i>	<i>X</i>	<i>X</i>	<i>X</i>

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

The outcome of the audit process is summarized in final system audit report that provides findings and recommendation which were identified during the audit process in bodies of Management Structure and Operating structure. Findings were categorized according to level of importance to major, intermediate and minor findings. During this audit engagement we identified in total 3 findings as follows:

➤ ***Finding N° 1: Failure to follow procedures- CFCU/MNE/141, CFCU/MNE/060 and CFCU/MNE/176***

ICF requirement: 3 (a) Selection and development of control activities

Level of priority: Intermediate

Body/-ies concerned by the finding: CFCU

By reviewing the documentation for the Contracts CFCU/MNE/141, CFCU/MNE/060 and CFCU/MNE/176 we determined that deadlines and procedures related to implementation of contacts, regulated by PRAG, Special Conditions of Contracts and MoP were not fully respected.

CFCU/MNE/141

AA auditors noticed that Draft version of the Final Report was received on 15th November 2021, which is one month before the end of the implementation period (14th December 2021). Final report was received on 30th December 2021.

Invoice/Payment request from Contractor was received in the CFCU/IA on 15th March 2022, even though the Final Report has been delivered on 30th December 2021. The Financial Report for the last implementation period was not part of the Final Report and the Invoice did not accompany the Final Report.

CFCU/MNE/060

AA auditors noticed that Draft version of the Final report was received on 26th October 2021, which is one month before end of the implementation period (26th November 2021). The Final report has been delivered on 21st December 2021.

Invoice/Payment request from Contractor was received in the CFCU/IA on 13th April 2022, even though the Final Report has been delivered on 21st December 2021. The Financial Report for the last implementation period was not part of the Final Report and the Invoice did not accompany the Final Report.

CFCU/MNE/176

By reviewing the documentation, we noticed that CFCU received invoice/payment request on 15th October 2021. OTSC was performed on 26th October 2021. CFCU noticed that Certificates of Origin were missing, were required as additional information/documentation. Contractor submitted Certificate of Origin on 7th December 2021. However, the Provisional Acceptance was signed by all parties on 15th February 2022. The procedure from receiving Certificate of Origin to signing the Provisional Acceptance took a long time.

Recommendation: We recommend respecting reporting procedures and deadlines, regulated by contracts and prescribed procedures.

- **Finding N° 2: Inadequate performed control activities**
ICF requirement: 3 (a) Selection and development of control activities
Level of priority: Intermediate
Body/-ies concerned by the finding: CPA

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

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

Additionally, according to the MoP procedure V.2.0, which was valid version in the time of performing contract procedures for Service contract – **PWA/MNE/IPAII/CAP16/SER/01-908/20-10606/1 Support to Project Preparation for Environment and Climate Change Sector, Montenegro** and for Service contract – **PWA/MNE/IPA II/CAP17/SER/01-908/21-4474/1 Technical assistance for project preparation of investment projects in the transport sector in Montenegro**, it is stated that:

“procedures specific to each type of procurement are detailed and are supported by checklists which should be applied before forwarding any documents to the EUD for ex-ante control”. Also, Checklists are being used by the staff and verified by the line management before forwarding any documents to the Head of IA for approval and quality control is performed by the Quality Assurance Division reporting directly to Head of IA.

The detailed checklists are given as annexes in the MoP procedures V.2.0, depending on the type of contract.

During the audit performed and based on insight in submitted documentation for above mentioned contracts we concluded that:

For the Service contract – PWA/MNE/IPAII/CAP16/SER/01-908/20-10606/1

- CL for PIN is prepared but not signed and dated by any relevant person or verified by Head.
- CL for CN was prepared, but not signed and dated by Head of Quality Assurance Division.
- CL for resubmission of CN was prepared, but not signed and dated by Head of QAD.
- CL for TD was prepared, but not signed and dated by Head of QAD.
- CLs for revised TD were not filled in by CM2 and QAS, but they are signed by all except by Head of QAD.
- CL for ToR was not appropriately filled in, filled in only by CM1 and signed by all except by Head of QAD
- We were not provided with CL of Ev.com.
- We were not provided with CL of Contract Dossier.

Regarding the Service contract – **PWA/MNE/IPA II/CAP17/SER/01-908/21-4474/1 Technical assistance for project preparation of investment projects in the transport sector in Montenegro**

- CL for the CN was signed and approved by the Head of QA Division. CL is not appropriately

filled in. Not signed by all relevant persons.

- CL for TD was performed for the both versions of TD (first version was rejected) but the CL it is not dated and sign by the Head of QA Division. Also, the columns in the CL are not completely filled in.
- CL for the CN was signed and approved by the Head of QA Division but it is not signed by all relevant persons. Also, the CL is not appropriately filled in.
- We were not provided by CL for Tender Opening Report.
- We were not provided by CL for the Evaluation Report.
- We were not provided by CL for Contract Dossier.
- We were not provided by CL for Award Notice.

According to the above mentioned, neither one check was performed adequately or was not performed at all. Performing controls is necessary in order to ensure that control activities that contribute to the mitigation of risks to the achievement of objectives are identified and developed at all levels of the organization.

Recommendation: We recommend respecting the procedures prescribed by the MoP and given annexes, to ensure adequate cross-checking controls.

➤ ***Finding N° 3: Lack of audit trail***

ICF requirement: 3 (a) Selection and development of control activities

Level of priority: Intermediate

Body/-ies concerned by the finding: NFD

By the insight into Request for Funds to the EC for Annual Action Programme for Montenegro for 2018 for Budget line 2018/040-220 and Request for Funds to the EC for Annual Action Programme for Montenegro for 2018 for Budget line 2018/040-218 with supporting documents, arrangements with the Central Bank for transferring of EU part of funds based on the DMS orders we have established the following:

- Even the DMS orders for transferring EU part of funds were prepared correctly, funds in the amount of 3 844 832.38 received to the Central Bank of Montenegro according to the Request for Funds to the EC for Annual Action Programme for Montenegro for 2018 for Budget line 2018/040-220, were first recorded in the account MF-NF-IPA-CAP 2018 (account of the budget line 2018/040-218) instead of the account MF-NF-IPA-CAP 2018 OBJECTIVE 2 (account of the budget line 2018/040-220). It was corrected the same day, in the way that the funds were transferred from MF-NF-IPA-CAP 2018 to the MF-NF-IPA-CAP 2018 OBJECTIVE 2;
- By the insight into accounting records, we noticed that there is no audit trail that above mentioned happened.

Recommendation: We recommend providing adequate audit trail.

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

Not applicable.

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

Considering the assessment of the management, control and supervision systems established for IPA II CAP 2014, CAP 2016, CAP 2017, CAP 2018 and CAP 2020 we have reasonable grounds to state that the MCSS functions properly and in accordance with the requirements of the Framework Agreement. Our assessment of the MCSS for this Programme is **works, but some improvement(s) are needed**. Therefore, the level of assurance obtained from the system is average.

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

<i>IPA Body</i>	<i>Works well. No or only minor improvement(s) are needed</i>	<i>Works, but some improvement(s) are needed</i>	<i>Works partially; substantial improvement(s) are needed</i>	<i>Essentially does not work</i>
<i>NAO end NAO Support Office</i>	X			
<i>NFD</i>	X			
<i>CFCU</i>		X		
<i>CPA</i>		X		
<i>Follow-up CAP 2014, CAP 2016, CAP 2017, CAP 2018 and CAP 2020</i>		X		

5. AUDITS OF SAMPLES OF TRANSACTIONS

In the period covered by this report, the AA conducted audits of all declarations on expenditure declared by NAO to EC for those Programmes (the AA conducts audit of operation on expenditure declared by NAO to the EC through the declaration on expenditure). The Audit Authority conducted two audits of operations in 2022 namely for CAP 2014 (2014 IPA/2014/032-022) and for CAP 2018 (IPA/2018/040-218).

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

The audits of samples of transaction in the framework of IPA II 2014-2020 for the Annual Action Programme for Montenegro (CAP 2014) and Annual Action Programme for Montenegro (CAP 2018) was conducted by the Audit Authority of Montenegro according to Audit Strategy 2022-2024 for Annual Country Action Programme for Montenegro for the year 2014, Annual Country Action Programme for Montenegro for the year 2016, Annual Country Action Programme for Montenegro for the year 2017, Annual Country Action Programme for Montenegro for the year 2018 and Annual Country Action Programme for Montenegro for the year 2020.

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

The sampling was performed by the Audit Authority in accordance with the method described in the Audit Strategy 2022-2024 and in accordance with the EC Guidance on sampling methods for audit authorities – Programming periods 2007-2013 and 2014-2020 (EGESIF 16-0014-01).

Population contains declared expenditure (cost recognized) for contracts (CAP 2014 - 6 contracts and CAP 2018 - 4 contracts) in the reference period 01.01.2022-31.12.2022. Therefore, the sampling unit for the audits of transactions for the year 2022 (reference period) was the project/contract.

In the reference period, the total amount for CAP 2014 (IPA/2014/032-022) of 2,140,956.13€ for 6 contracts was declared to the European Commission Statement of Expenditure No 4 from November 28th, 2022. Therefore, for the declared amount, the materiality level (tolerable error) is 42,819.12€ (2%).

The total amount for CAP 2018 (CRIS decision no IPA/2018/040-218) for 4 contracts was declared to the European Commission Statement of Expenditure No 3 from 3th October 2022 in the total amount of 371,413.47€. Therefore, for the declared amount, the materiality level (tolerable error) is 7,428.26€ (2%).

In accordance with the EC Guidelines¹ and Manual of Procedures the Audit Authority applied non-statistical sampling for the selection of the sample.

Population contains declared expenditure (cost recognized) for action/operation/contract. The sampling unit for the audit of transactions for the year 2022 (reference period) was the project/contract. We stratified the population per contract and used the random method to select

¹ EGESIF_16-0014-01 of 20 January 2017 – Guidance on sampling methods for Audit Authorities, Programming periods 2007-2013 and 2014-2020

the sample. Sampling was made in specialized CAAT tool CaseWare IDEA.

Presentation of samples for Audits of Operations performed in 2022:

The Audit of Operation CAP 2014 (2014 IPA/2014/032-022)

Out of the total 6 number of units in population, 1 of them were the subject of the audit.

Overall amount of sample size of 1 project is 443.625,00, which presents 16,67% of the total number of units/operations (population) and 20,72% of total amount of declared costs.

Contract N°	Name of the Contract	Expenditure (cost recognized) for the Audit of Operations
CFCU/MNE/074	Service contract: Implementation of New Computerized Transit System (NCTS)	443,625.00
SUM		443,625.00

The Audit of Operation CAP 2018 (IPA/2018/040-218)

According to the fact that there is a small and limited number of sampling units for the reference year, the AA audited 100% declared expenditure (cost recognised).

The audits did not identify an error.

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

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

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

In the period covered by this report, the AA conducted audits of all declarations on expenditure declared by NAO to EC for those Programmes (the AA conducts audit of operation on expenditure declared by NAO to the EC through the declaration on expenditure). The Audit Authority conducted two audits of operations in 2022 (for CAP 2014 and for CAP 2018).

No negative items were present in the amounts declared to the Commission during 2022.

The populations considered for drawing up the sample for the audits of operations is given in the tables below:

Annual Audit Activity Report for CAP 2014;2016;2017;2018;2020

Programme: CAP 2014 IPA/2014/032-022	Costs recognized/Population				Costs recognized/Audited				Audited / Declared expenditure (%)
	EU	NC	Others	Total	EU	NC	Others	Total	
Sector 1 Democracy and Governance	1,934,577.38	206,378.75	0.00	2,140,956.13	399,262.50	44,362.50	0.00	443,625.00	20.72%
Action 2 Support to public finance management policies	124,754.49	16,757.01	0.00	141,511.50	0.00	0.00	0.00	0.00	0.00%
Action 2 Support to public finance management policies	149,090.62	16,565.63	0.00	165,656.25	0.00	0.00	0.00	0.00	0.00%
Action 2 Support to public finance management policies	133,684.54	14,853.84	0.00	148,538.38	0.00	0.00	0.00	0.00	0.00%
Action 3 - Support to Customs administration	96,533.10	10,725.90	0.00	107,259.00	0.00	0.00	0.00	0.00	0.00%
Action 3 - Support to Customs administration	399,262.50	44,362.50	0.00	443,625.00	399,262.50	44,362.50	0.00	443,625.00	20.72%
Action 4 - Implementation of an eprocurement system	1,031,252.13	103,113.87	0.00	1,134,366.00	0.00	0.00	0.00	0.00	0.00%
Total	1,934,577.38	206,378.75	0.00	2,140,956.13	399,262.50	44,362.50	0.00	443,625.00	20.72%

Population, expenditure (cost recognized) for the Audit of Operation is 2,140,956.13€.

Programme: CAP 2018 IPA/2018/040-218	Costs recognized/Population				Costs recognized/Audited				Audited / Declared expenditure (%)
	EU	NC	Others	Total	EU	NC	Others	Total	
Sector 2 Rule of law and fundamental rights	371,413.47	0.00	0.00	371,413.47	371,413.47	0.00	0.00	371,413.47	100%
Action 3: EU Integration Facility	371,413.47	0.00	0.00	371,413.47	371,413.47	0.00	0.00	371,413.47	100%
Total	371,413.47	0.00	0.00	371,413.47	371,413.47	0.00	0.00	371,413.47	100%

Population, expenditure (cost recognized) for the Audit of Operation is 371,413.47€.

No negative items were present in the amounts declared to the Commission during 2022.

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

Not applicable.

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

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

The sampling unit for the audit of transactions is contract. According to the fact that there is small and limited number of sampling units in reference period, we used a non-statistical sampling method (point 4.1, 4.2, 4.3 and 6.4 of Guidance).

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)

<i>Country Annual Programme for Montenegro for year 2014 (IPA/2014/032-022)</i>	
Amount of declared expenditure	2,140,956.13€
No of units in population	6
Value of the sample tested	443,625.00€
Value of the sample tested in %	20.72%
No of units in sample	1
No of units in sample in %	16.67%
Materiality 2% of expenditure declared in reference period (tolerable misstatement) (2,140,956.13* 2%)	42,819.12€
Error amount determined by the audit	0.00
Error rate	0.00%
Extrapolated error	0.00
<i>Country Annual Programme for Montenegro for year 2018 (IPA/2018/040-218)</i>	
Amount of declared expenditure	371,413.47€
No of units in population	4
Value of the sample tested	371,413.47€
Value of the sample tested in %	100%
No of units in sample	4
No of units in sample in %	100.00%
Materiality 2% of expenditure declared in reference period (tolerable misstatement) (371,413.47€* 2%)	7,428.26€
Error amount determined by the audit	0.00
Error rate	0.00%
Extrapolated error	0.00

Information relating to the random statistical sample is distinguished from that related to other samples if applicable (e.g. risk-based complementary samples)

Not applicable.

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

The overall audits objective was to verify the legality and regularity of declared expenditures, in accordance with AA competencies established by the Law on Audit of EU Funds and functions and the responsibilities set out in Annex A of the Framework Agreement concluded between the Government of Montenegro and the European Commission (Official Gazette of Montenegro 5/2015).

In order to obtain the abovementioned audit objectives, the following audits areas were covered during the audits of operation:

- a) Operation's compliance with Operational Programme,
- b) Procurement procedures (tendering and contracting),
- c) Eligibility of expenditure,
- d) Publicity and Visibility,
- e) Payments,
- f) Accounting and supporting documents,
- g) National co-financing,
- h) Reality of operation,
- i) Fulfilment of the operation objectives
- j) Audit trail.

The Audit of Operation CAP 2014 (IPA/2014/032-022)

Cost recognized refers to the following contracts:

<i>Contract No</i>	<i>Name of the Contract</i>	<i>Declaration of expenditure was submitted to EC on 28.11.2022.</i>	<i>Declaration of expenditure was submitted to EC on 01.11.2021.</i>	<i>Declaration of expenditure was submitted to EC on 25th April 2019</i>	<i>Population for selecting the sample</i>
<i>Objective 1 2014/032-022</i>					
<i>MN 14 IPA FI 01 16</i>	<i>Twinning contract: Support to the Tax administration</i>	<i>812,587.60</i>	<i>812,587.60</i>	<i>345,258.72</i>	<i>0.00</i>
<i>CFCU/MNE/080</i>	<i>Service contract: Improvement of budget system, the preparation of the Business Continuity Management Plan (BCMP) and development of Public Internal Financial Control System</i>	<i>746,046.00</i>	<i>604,534.50</i>	<i>0.00</i>	<i>141,511.50</i>
<i>CFCU/MNE/077</i>	<i>Service contract: Improvement of Budget Department IT system</i>	<i>294,500.00</i>	<i>128,843.75</i>	<i>0.00</i>	<i>165,656.25</i>
<i>CFCU/MNE/073</i>	<i>Service contract: Implementation of the Centralized Calculation of Earnings</i>	<i>538,843.30</i>	<i>390,304.92</i>	<i>0.00</i>	<i>148,538.38</i>
<i>CFCU/MNE/056</i>	<i>Service contract: Improvement and strengthening of institutional set-up and legal framework in the area of state aid and public procurement</i>	<i>654,612.63</i>	<i>654,612.63</i>	<i>0.00</i>	<i>0.00</i>
<i>CFCU/MNE/063</i>	<i>Service contract: The development and strengthening of the capacities of State Audit Institution and Audit Authority</i>	<i>629,719.65</i>	<i>629,719.65</i>	<i>0.00</i>	<i>0.00</i>
<i>CFCU/MNE/057</i>	<i>Supply contract: Supply for the development and strengthening of the capacities of State Audit Institution and Audit Authority</i>	<i>12,025.00</i>	<i>12,025.00</i>	<i>12,025.00</i>	<i>0.00</i>
<i>CFCU/MNE/074</i>	<i>Service contract: Implementation of a new computerized transit system (NCTS)</i>	<i>1,516,375.00</i>	<i>1,072,750.00</i>	<i>0.00</i>	<i>443,625.00</i>
<i>CFCU/MNE/062</i>	<i>Service contract: Support to accession to common transit convention and convention on facilitation</i>	<i>472,144.41</i>	<i>364,885.41</i>	<i>0.00</i>	<i>107,259.00</i>
<i>CFCU/MNE/061</i>	<i>Supply contract: Support to the Customs administration</i>	<i>318,988.21</i>	<i>318,988.21</i>	<i>0.00</i>	<i>0.00</i>
<i>CFCU/MNE/076</i>	<i>Mixed contract: Implementation of an e-procurement system</i>	<i>1,599,906.00</i>	<i>465,540.00</i>	<i>0.00</i>	<i>1,134,366.00</i>
<i>Total:</i>		<i>7,595,747.80</i>	<i>5,454,791.67</i>	<i>357,283.72</i>	<i>2,140,956.13</i>

Following bodies were covered during the audit:

- Ministry of Finance -PIU
- CFCU - Implementing Agency

During the audit, no transaction findings were identified. Furthermore, no system findings were identified.

The Audit of Operation CAP 2018 (IPA/2018/040-218)

Cost recognized refers to the following contracts:

<i>Contract No</i>	<i>Name of the Contract</i>	<i>Declaration of expenditure was submitted</i>	<i>Population for selecting the sample</i>
<i>CFCU/MNE/173 3C8.3.3.03.01.C01</i>	<i>Supply of computer equipment and multimedia room equipment for Sector for Prevention of Money Laundering and terrorist financing - Lots 1&3</i>	<i>73,480.54</i>	<i>73,480.54</i>
<i>CFCU/MNE/174 C8.3.3.03.01.C02</i>	<i>Supply of computer equipment and multimedia room equipment for Sector for Prevention of Money Laundering and terrorist financing - Lot 2</i>	<i>71,094.37</i>	<i>71,094.37</i>
<i>CFCU/MNE/176 C8.3.3.01.02.C02</i>	<i>Supply of hardware for the expansion of existing Server and Storage system's capacity of the Customs Administration</i>	<i>195,929.00</i>	<i>195,929.00</i>
<i>CFCU/MNE/178 C8.3.3.03.01.C04</i>	<i>Supply of computer equipment and multimedia room equipment for Sector for Prevention of Money Laundering and terrorist financing - Lot 2</i>	<i>30,909.56</i>	<i>30,909.56</i>
Total		371,413.47	371,413.47

According to the fact that there is a small and limited number of sampling units for the reference year, the AA audited 100% declared expenditure (cost recognised).

Following bodies were covered during the audit:

- Ministry of Finance – PIU
- Ministry of Interior – PIU
- CFCU - Implementing Agency (IA)
- National Fund Division (NFD).

During the audit, we have identified and documented three system findings. No transaction findings were identified.

SYSTEM FINDING N° 1: Accounting records of IA (CFCU)

Audit area: Accounting and supporting documents

Operation/Contract: CFCU/MNE/173 - C8.3.3.03.01.C01: Supply of computer equipment and multimedia room equipment for Sector for Prevention of Money Laundering and terrorist financing- Lots 1&3; CFCU/MNE/174 - C8.3.3.03.01.C02: Supply of computer equipment and multimedia room equipment for Sector for Prevention of Money Laundering and terrorist financing - Lot 2

Level of Priority: Intermediate

Responsible Body/ies: Implementing Agency- CFCU

Reviewing the documentation and accounting software in CFCU, which is related to the audited operations, we noticed that the bank guarantees are not recorded in the accounting system (off-balance accounts: 916 Bank guarantee-debt/ 966 Bank guarantee-credit), as well as, in Bank Register, which is not in accordance with an accounting principle of promptness. The principle of promptness, which is one of the basic accounting principles, is consisted of the fact that accounting entry of all business changes must be carried out immediately after the changed have been appeared.

Bank guaranties were not recorded for following contracts:

- Contract CFCU/MNE/173, Pre-financing guarantee No: 00-430-102156.2-1 and Performance guarantee No: 00-430-1002156.2-1 and
- Contract CFCU/MNE/174 Performance guarantee No 10/13971, as well as, its amendment No 1.

In case that bank guaranties are not entered in the accounting system, there is risk that they cannot be realized on time, if necessary.

Recommendation: We recommend to CFCU to record the above-mentioned bank guaranties into the accounting system. Also, CFCU should timely carry out accounting entry of all business changes, in order to ensure adequate audit trail as well as complete, accurate and transparent accounting, following internationally accepted accounting principles.

Having an insight into proofs, submitted by CFCU, we noticed that bank guaranties are entered into accounting system and into the Bank register. Therefore, we consider this finding **closed**.

SYSTEM FINDING N° 2: Book keeping entries of purchased supplies

Audit area: Accounting and supporting documents

Operations/Contracts: Supply of hardware for the expansion of existing Server and Storage system's capacity of the Customs Administration/(CFCU/MNE/176 - C8.3.3.01.02.C02); Supply of computer equipment and multimedia room equipment for Sector for Prevention of Money Laundering and terrorist financing - Lots 1&3(CFCU/MNE/173 - C8.3.3.03.01.C01); Supply of computer equipment and multimedia room equipment for Sector for Prevention of Money Laundering and terrorist financing - Lot 2 (CFCU/MNE/174 - C8.3.3.03.01.C02) and Supply of computer equipment and multimedia room equipment for Sector for Prevention of Money Laundering and terrorist financing - Lot 2 (CFCU/MNE/178 - C8.3.3.03.01.C04)

Level of Priority: Intermediate

Responsible Body/ies: PIU Ministry of Finance / Final recipient of assistance: Revenue and Customs Administration of Montenegro; PIU Ministry of interior/Final recipient of assistance: Sector for Prevention of Money Laundering and terrorist financing

During the on the spot check controls which are performed in the bodies - final recipients of assistance, for above mentioned contracts we determined as follows:

- In Revenue and Customs Administration, for purchased supplies within Contract CFCU/MNE/176, inventory numbers are not assigned and they are not entered in accounting evidence of the Revenue and Customs Administration, Also, we determined that for delivered items within this contract, there is adequate supporting documentation (Packing list, Minutes of acceptance of supply).

- In Sector for Prevention of Money Laundering and terrorist financing, for supplies purchased within follows contracts:

1. CFCU/MNE/173-Supply of computer equipment and multimedia room equipment for Sector for Prevention of Money Laundering and terrorist financing - Lots 1&3;
2. CFCU/MNE/174-Supply of computer equipment and multimedia room equipment for Sector for Prevention of Money Laundering and terrorist financing - Lot 2 and
3. CFCU/MNE/178-Supply of computer equipment and multimedia room equipment for Sector for Prevention of Money Laundering and terrorist financing - Lot 2,

inventory numbers were not assigned and purchased supplies were not entered in accounting system of the Ministry of Interior. Also, during the OTSC, for above mentioned contracts, we were not provided by relevant supporting documentation (Packing list, Minutes of acceptance of supply) from the PIU/Final recipient of the assistance.

Above mentioned is not in accordance with Framework Agreement where is stated that the IPA II beneficiary shall maintain records and accounts adequate to identify the services, supplies, works and grants financed under the related Financing Agreement.

Recommendation: We recommend to Revenue and Customs Administration and to Ministry of Interior to ensure book keeping entries of the purchased supplies and to assign inventory numbers, in accordance with Law on state property (OG MN No. 021/09; 040/11) and other relevant national regulations, and with a view to meeting all requirements defined by Framework and Financing Agreement.

SYSTEM FINDING N° 3: Protentional non-fulfilment Operation's objective

Audit Area H: Fulfilment of the operation objectives

Operation/Contract: Supply of hardware for the expansion of existing Server and Storage system's capacity of the Customs Administration No. CFCU/MNE/176 - C8.3.3.01.02.C02

Level of Priority: Major

Responsible Body/ies: Ministry of Finance (PIU)

During the audit we determined that the contractual obligation from Contract CFCU/MNE/176- Supply of hardware for the expansion of existing Server and Storage system's capacity of the Customs Administration, are performed.

However, during the On the Spot Check which is performed in Revenue and Custom Administration, we determined that there is no VM WARE license for 4 Servers for blade chassis. This license is necessary in order to provide fully integration of those servers into existing information system. Namely, administration of each separately server is possible, but administration of servers or from central point (V Centre) is not enabled. Supplied servers are currently in use as back up variant, in case of failure of the existing server.

Consequently, all articles prescribed by relevant regulations (Article 5 of Framework Agreement and Clause 4 Point 2 of the Annex A also of the Framework Agreement, and Part II, Chapter Contract implementation and OTSC of MoP for PIU) were not respected.

Bearing in mind the defined objectives for Activity 3.1.2.1 Upgrading of the Customs Information system (CIS) with new functionalities in Action document Support to the rule of Law and fundamental rights sector (IPA 2018 040-218 3 ME ROL) and in Financial Agreement, as well as, the fact that a part of supplied equipment is not fully integrated into existing system, due to lack of the appropriate license, we can conclude that the sustainability of this contract is questionable. Finally, this can lead to the recovery of funds in accordance with Article 7 - Recovery of funds of the Financial Agreement where is stated: (1) In addition to cases referred to in Article 41 of the Framework Agreement, the Commission may recover the funds from the IPA II beneficiary as provided in the Financial Regulation, in particular in case of: (a) the Commission established that objectives of the Programme set out in Annex I are not achieved.

Recommendation: We recommend that PIU/Ministry of Finance, in coordination with final recipient of assistance – Revenue and Custom Administration, as soon as possible, solve the problem of supply of VMWARE license for Servers for blade chassis, in order to be able to achieve the objective of the Action 3 in order to avoid potential recovery of EU funds.

Also, we recommend that PIU, in accordance with its responsibilities defined by MoP, occasionally performs monitoring of sustainability of the contract.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable

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

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

Based on the audit work performed we have obtained reasonable assurance that the audited expenditure declared are in all material aspects, legal and regular.

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

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

In accordance with the Audit Strategy for the IPA II 2014-2020 for the Annual Country Action Programmes for Montenegro for the years 2014, 2016, 2017, 2018 and 2020 submitted to European Commission - DG Near on November 30th 2021 the Audit Authority of Montenegro carried out an audit of completeness, accuracy and veracity of the annual financial reports or statements (audit of accounts) for above mentioned programmes for the reference financial year 2022, i.e. the accounting year from 1st January to 31st December 2022, issued by NAO on 15th February 2023 (Final Report on Audit of Accounts).

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

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

For the purpose of expressing the Annual Audit Opinion, in order to conclude that the Annual Financial Report gives a true and fair view, the Audit Authority shall verify that all elements required by models stipulated in Annex IV of the Financing Agreements concerning the CAP for the year 2014, 2016, 2017, 2018 and 2020, i.e. cumulative amounts declared from the programmes, are correctly included in the accounts and correspond to the supporting accounting records maintained by bodies in the National Fund Division (NF) and Implementing Agencies / Directorate for Finance and Contracting of the EU Assistance Funds (CFCU) and 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), 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 Annual Country Action Programmes for Montenegro for the years 2014, 2016, 2017, 2018 and 2020.

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

Annual Audit Activity Report for CAP 2014;2016;2017;2018;2020

Financial/accounting year: 2022

IPA II Annual Country Action Programmes CAP 2014, CAP 2016, CAP 2017, CAP 2018 and CAP 2020

Progra mme	Financing Agreement contract number	Local Contract Activities															
		Total Amount Contracted			Amount Decommi tted on closure	Total Amount Disbursed			Total Costs Recognised			Total Open Pre-financing			Recovery context		Bank Bala nces (EU contr ibuti on)
		EU contribution	National contribution	Other sources	Total	EU contribution	National contribution	Other sourc es	EU contribution	National contribution	Other sources	EU contribution	National contributio n	Other sourc es	Errors/ Irregulari ties/Frau d	No context	Total
CAP 2014	2014/032-022	10,010,087.75	1,802,120.98	0.00	0,00	8,271,459.97	1,578,824.31	0.00	7,668,093.71	1,511,783.61	0.00	603,366.26	67,040.70	0.00	0,00	87,412.40	1,556,460.03
CAP 2014	2014/032-803	11,283,939.78	2,444,235.44	0.00	0,00	10,898,376.12	2,387,183.20	0.00	10,806,826.24	2,377,417.88	0.00	0.00	0.00	0.00	0,00	465,265.20	107,224.93
CAP 2016	2016/037-896	1,597,951.00	1,501,803.93	0.00	0,00	1,597,951.00	1,501,803.93	0.00	1,597,951.00	1,501,803.93	0.00	0.00	0.00	0.00	0,00	0.00	0.00
CAP 2017	2017/040-216	10,732,236.43	1,594,162.91	456,837.62	0,00	8,199,499.44	1,157,327.29	0.00	6,514,919.13	900,506.64	60,822.00	1,684,580.31	256,820.65	0.00	0,00	0.00	1,592,135.96
CAP 2017	2017/039-816	3,442,979.61	943,852.00	0.00	0,00	2,546,108.43	943,852.00	0.00	1,778,032.16	943,852.00	0.00	768,076.27	0.00	0.00	0,00	0.00	628,699.58
CAP 2018	2018/040-218	8,539,811.83	2,256,184.17	0.00	0,00	4,657,457.43	1,128,196.21	0.00	2,642,417.68	666,990.33	0.00	2,015,039.75	461,205.89	0.00	0,00	0.00	3,347,547.38
CAP 2018	2018/040-220	10,998,435.92	12,854,552.62	0.00	0,00	2,956,235.08	2,913,282.52	0.00	2,350,403.97	1,970,116.52	0.00	605,831.11	943,166.00	0.00	0,00	0.00	6,756,035.59
CAP 2020	2020/042-142	12,780,000.00	331,553.24	0.00	0,00	222,449.12	0.00	0.00	8,000.00	0.00	0.00	214,449.12	0.00	0.00	0,00	0.00	3,622,383.26
CAP 2020	2020/042-145	443,174.69	443,174.69	0.00	0,00	443,174.69	443,174.69	0.00	443,174.69	443,174.69	0.00	0.00	0.00	0.00	0,00	0.00	0.00

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

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

In order to achieve the overall objective, the Audit Authority took into account the results audits performed in 2022.

Audit was carried out considering the results of System audits for the CAP 2014, CAP 2016, CAP 2017, CAP 2018 and CAP 2020 by Audit Authority and audits of operations/transactions for CAP 2014 and CAP 2018.

During 2022, NAO did not submit a request for funds including a “Declaration of expenditure”, for programmes: CAP 2014 (2014/032-803); CAP 2016 ((2016/037-896); CAP 2017 (2017/040-216 and 2017/039-816); CAP 2018 (2018/040-220) and CAP 2020. Therefore, AA was not able to perform Audit of Operations/transactions. However, within System Audit which was carried out in 2022, (report No 3011-1-06-563/2 of 30th December 2022) on the basis sample of transactions we audited ICFR 3 - Control activities within CAP 2014 (2014/032-803), CAP 2016, CAP 2017 (2017/040-216 and 2017/040-816) and CAP 2020 (2020/042-145).

For the purpose of the Audit of Accounts, AA performed additional tests on the sample of transactions included in financial reports/accounts for programmes for which were not performed Audit of Operations. Selecting the sample for testing was performed according to the methodology defined by EC Guidance on sampling methods for audit authorities and Manual of Procedures of AA. Population consists of transactions per each Programme (budgetary line) for reference period 01/01/2022 - 31/12/2022. We excluded transactions audited through system audit, stratified the whole population in strata per each Programme (budgetary line) and used the random method to select the sample in each stratum. We decided to increase audited sample and took around 30% of total number of payments per each budget line per every Programme. The purpose of test sample of transactions, included in financial reports/accounts, is to check whether it correspond with the amounts specified in the verified documents, collected from NF and IA/CFCU and IA/CPA.

Working in the field we held meetings with representatives of NFD, CFCU and CPA for the purpose of getting some clarifications and the additional evidence collecting. Audit testing was performed on the collected evidence. Audit was performed using the Checklist for Audit of Accounts (Annex 4c of the AA MoP). Comparison and testing data were carried out on Annual Financial Report (Annexes 4a and 4b of Financial Agreements), IAs Requests for Funds, IAs payment orders, IA Cash flow statements, Bank statements and IAs accounting records in the General Ledger.

Furthermore, verifications on the amounts were carried out on the following evidence: Year-end cut-off reports, Requests for Funds from IAs, Liquidity book, Bank statements, Quarterly Progress Reports on contracts and payments, Bridge financing documents and Transfer orders, accounting records in the General Ledgers, Financial reports of NFD and IAs for 2022, Register of recoveries and supporting documents, Financial forecasts and Forecast of likely payment requests, Payment book of IAs.

During the audit, we identified and documented two findings.

The outcome of the audit process is summarized in Final Audit Account Report that provides findings and recommendations which were identified during the audit process in NFD and IA/CFCU. During this audit engagement we identified in total two findings as follows:

FINDING N° 1 Incorrect amount of “Total Amount Disbursed” in AFR

Programme: CAP 2014 /2014/032-022 and 2014/032-803 - Annual Financial Report for 2022, item No. 8

Level of priority: Intermediate

Body/-ies concerned by the finding: NFD

By the performed checks of relevant documentation and the accounting records, regarding to the total amount disbursed, total amounts recognized, total amount of open pre-financing and the amount of recoveries, we determined that amounts of Total Amount Disbursed was not properly reported in the AFR for Programme CAP 2014 (2014/032-803) for 2022.

By comparing the AFR and the accounting records, we concluded that the total amount paid and total amount of recoveries were adequately treated in accounting records of CFCU. However, it was not correctly presented in the AFR for 2022. Namely, Total amount disbursed was presented in the amount more than it should be. This amount is related to the amount of executed recovery for Programme CAP 2014 2014/032-803 in total amount of 101,315.20€ (EU contribution 91,549.88€, national contribution 9,765.32).

Table: Difference related to Total Amount Disbursed

CAP (2014/032-803)	A	B	Difference
	Annual Financial Report	Record in accounting system IA	A-B
EU contribution	10,898,376.12	10,806,826.24	91,549.88
National contribution	2,387,183.20	2,377,417.88	9,765.32
Other sources	0	0	0.00
Total	13,285,559.32	13,184,244.12	101,315.20

Recommendation: In order to ensure complete and accurate Final statement of expenditure, we recommend that total disbursed amount should be presented as follows: Total amount disbursed/paid = pre-financing payments + amount of invoices directly paid – recoveries.

FINDING N° 2 Incorrectly presented item “Total Contracted Amount” in AFR1

Programme: CAP 2020 (2020/042-145) Annual Financial Report for 2022, item No. 4

Level of priority: Intermediate

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

Reviewing the data presented in the Annual Financial Report for CAP 2020 (2020/042-145) and data entered into accounting system of CFCU, discrepancy related to the presented Total Amount Contracted, has been determined.

In the Annual Financial Report for CAP 2020 (2020/042-145) for 2022, Total Amount Contracted was reported as follows:

- EU contribution 1,246,534.70€;
- National contribution 219,976.72€;
- Other sources 0.00€

The total contracted amount recorded in the accounting system of CFCU for CAP 2020 (2020/042-145) is as follows:

- EU contribution 1,246,534.71€;
- National contribution 219,976.72€;
- Other sources 136,705.17 €.

Based on the above mention, we can conclude that in AFR1 for 2022 IPA II Action Programmes CAP 2020 (2020/042-145) the amount of Other sources was not presented in the field *Total Amount Contracted*, which is not in accordance with the requirements of Annex 4 (a) of the Financing agreement for CAP 2020 (2020/042-145).

Differences between data presented in the AFR 1 and accounting system of CFCU is presented in the following table:

CAP (2020/042-145)	A	B	Difference
	Annual Financial Report	Record in accounting system IA	A-B
EU contribution	1,246,534.70	1,246,534.70	0.00
National contribution	219,976.72	219,976.72	0.00
Other sources	0	136,705.17	-136,705.17
Total	1,466,511.42	1,603,216.60	-136,705.18

Recommendation: We recommend presenting the *Total Contracted Amounts* by sources of financing in the Annual financial report, as it is specified in Annex 4 (a) Financing agreement which correspond to the amounts entered in the accounting system IA/CFCU for CAP 2020 (2020/042-145).

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

During Audit of Accounts for 2021 performed in 2022, the follow-up of findings and recommendations from previous audit was performed, and the results of the follow-up is the constituent part of Audit of Accounts report.

After receiving the responses and the documentation on the fulfilment of recommendations from all bodies, we conducted interviews with the employees responsible for the management and implementation of the operational programme in bodies in which the interview was needed. After analyses and reviewing the submitted documentation, we assessed the status of the individual recommendation with the respective explanation. Results of performed follow-up are that one out of one finding is closed and given as follows:

During Audit of Accounts for 2021 we gave one finding:

- Incorrectly presented amount of recovery in the field “Recovery context” in AFR1

FINDING N° 1 Incorrectly presented amount of recovery in the field “Recovery context” in AFR1 Programme: Annual Country Action Programme for Montenegro for the year 2014 (2014/032-803)

No of Contract: CFCU/MNE/058

Level of priority: Intermediate

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

According to the requirements of Annex 4 (a) of the Financing agreement for CAP 2014 the amount of recoveries have to be presented in the field “Recovery context”.

By the insight into AFR1 for 2021, for CAP 2014/032-803, in the field No 17 “Recovery context” the total amount presented is 465,265.20€.

Based on the audit performed we determined that the presented amount is not correct.

Namely, the contractor of the Supply contract CFCU/MNE/064 (which contract is terminated in 2019) returned the total amount of the 363,950.00€ during 2019.

However, the contractor of the Grant contract CFCU/MNE/058 did not refund the amount of 101,315.20€. For this amount recovery order is issued on December 13th, 2021, but recovery was not executed by the end of 2021. In accordance with the above mention, the amount of 101,315.20€ should not have been included in the amount of 465,265.20€ which is presented in the column “Recovery context”.

Request for recovery for the amount of 101.315,20€ (EU contribution 91.549,88€ and National contribution 9.765,32€) is recorded in the accounting system of the CFCU.

The amount of the 101,315.20€ which should not have been included in the “Recovery Context” refers to the contract CFCU/MNE/058 and it is presented in the following table:

Financing Agreement CAP 2014/032-803 Contract CFCU/MNE/058	Disbursed amounts (pre- financing payments)	Costs recognized	Open Pre- financing	Reported in AFR1 as recovery, although hasn't been recovered
	Recorded in accounting system CFCU and AFR			
EU Contribution	1,350,000.00	1,258,450.12	91,549.88	91,549.88
National Contribution	144,000.00	134,234.68	9,765.32	9,765.32
Total	1,494,000.00	1,392,684.80	101,315.20	101,315.20

Recommendation: The total amount presented in field “*Recovery context*” of AFR1 should contain only recovered amounts.

We consider this **finding closed**. Since the amount from the finding is recovered during 2022, finding is not applicable any more.

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

Not applicable.

7. FOLLOW-UP OF PREVIOUS YEARS' AUDIT ACTIVITY

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

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

In the period January-February 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:

AUDIT RECOMMENDATION STATUS REPORT – FOLLOW-UP

AUDITEE	National Fund Division/NAO support office; NIPAC office; <i>Implementing Agencies:</i> Central Finance and Contracting Unit (CFCU) and Capital Project Administration (CPA), <i>Project Implementation Units of the line ministries:</i> Ministry of Finance, Ministry of Interior, Ministry of Ecology Spatial Planning and Urbanism, Ministry of Economic Development and Tourism and Ministry of Capital Investments
AUDIT REPORT	Final Reports on performed System Audits: - CAP 2014 no 3011-1-06-30/4 from 20.10.2017; - CAP 2014, CAP 2016, CAP 2017 and CAP 2018 no 3011-1-06-207/4 from 23.12.2020.; - CAP 2014, CAP 2016, CAP 2017, CAP 2018 and CAP 2020 no 3011-2-06-525/2 from 20.01.2022. and - CAP 2014, CAP 2016, CAP 2017, CAP 2018, CAP 2020 no 3011-1-06-563/2 from 30.12.2022., Final Reports on performed Audits on operations: - CAP 2014 no 3011-2-06-2/2 from 20.01.2022. and - CAP 2018 no 3011-2-06-556/2 from 29.12.2022. Final Reports on performed Audits on Accounts: - CAP 2014, CAP 2016, CAP 2017, CAP 2018 i CAP 2020 no 3011-3-06-131/2 from 11.03.2022
DATE OF AUDIT RECOMMENDATION STATUS REPORT	February 2023 Follow-up as a separate activity before issuing AAARs and AAOs.
SOURCE OF THE UPDATE	For the purpose of carrying out the follow-up we have conducted a set of activities: <ul style="list-style-type: none"> On 2nd February 2023 we sent to NAO/DMS-NF Table with the summary of findings and recommendations from previous performed audits. We informed them that we need the follow-up for the preparation of the AAAR, which should be submitted to the EC, Government of Montenegro with a copy to the NIPAC and NAO by the 15th March 2023. Therefore, we requested from NAO/NF to include into the Tables their Management response on the status of the individual recommendation with the appropriate explanation. We also informed them that they should prepare the evidence on the fulfilment of the individual recommendation which will be provided to us. On 10th February 2023 we received the information we requested from NAO/NF. After the analysis of the received responses, documentation collected, we assessed the status of the individual recommendation with the respective explanation.

1. Audit objectives

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.

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No	Finding	Recommendation	Priority Body/-ies concerned by the finding/ Level/ by the	Status as at February ²	Priority level/ New deadline for implementation																
1.	<p>Lack of staff, recruitment and retention policy</p> <p>(Details: See section 4.1.1 of Final System Audit Report from 20th October 2017)</p> <p>During the audit we determined, based on the internal acts on systematisation and organisation of job positions and WLA that in all bodies of managing and operating structure, dealing with OP - Annual Country Action Programme for Montenegro for the year 2014, the number of permanently employed executors is insufficient. We also noted difficulties in retaining staff who during the work in bodies acquired appropriate knowledge and experience.</p> <p>Envisaged Work post related to IPA jobs by Rulebook, result of WLA/2019 and number of the currently employed on the date of the audit) are given in the table below:</p> <table><tr><th>Auditee</th><th>Envisaged work post related to IPA jobs by Rulebook</th><th>Result of WLA/2019</th><th>Currently employed</th></tr><tr><td>NF/NAO SO</td><td>13 - including NAO</td><td>13</td><td>11 (8- LTEC;3 TEC)</td></tr><tr><td>NIPAC Office</td><td>12 - Including NIPAC</td><td>12</td><td>10 (9 – LTEC; 1-TEC)</td></tr><tr><td>CFCU</td><td>37 - Including</td><td>37</td><td>31 (20-LTEC;11-TEC)</td></tr></table>	Auditee	Envisaged work post related to IPA jobs by Rulebook	Result of WLA/2019	Currently employed	NF/NAO SO	13 - including NAO	13	11 (8- LTEC;3 TEC)	NIPAC Office	12 - Including NIPAC	12	10 (9 – LTEC; 1-TEC)	CFCU	37 - Including	37	31 (20-LTEC;11-TEC)	<p>We recommend, as urgently as possible, taking necessary measures and accelerating activities with a view to recruiting lacking number of employees which would further influence better and more efficient management and use of IPA funds. In order to prevent outflow of the key employees and problems created by their leave from IPA bodies, it is necessary to develop factually established policy of staff retention. Such policy would improve systems of promotion, award, professional training as well as other aspects of work. Therefore, we recommend necessity of additional efforts in order to establish policy of staff retention which can respond to the expected scope of work and fluctuation of employees.</p> <p><i>*The progress has already been made in the period between Draft and Final Report. The implementation of the recommendation will be further monitored.</i></p>	<p>Intermediate:</p> <p>NIPAC Office, CPA/IA, MEDT, MCI</p> <p>Major:</p> <p>CFCU and MF/PIU</p>	<p>According the responses from the auditees and available documentation we conclude following:</p> <p>NIPAC Office Lack of staff is still evident. We will further monitor implementation of the recommendation. Finding remains open, with an intermediate level of priority.</p> <p>CFCU/IA 32 job positions out of 40 envisaged in the WLA 2022 are filled. Out of 32 employees 9 employees are engaged on a temporary basis contract.</p> <p>Finding remains open, with major level of priority.</p> <p>CPA/IA The significant efforts are evident. Currently, 3 job positions are vacant.</p> <p>We will further monitor implementation of the recommendation.</p> <p>Finding remains open, with an intermediate level of priority.</p> <p>MF/PIU 2 employees work in the MF/PIU, out of 4 envisaged in the WLA 2023. SPO and one implementation manager are engaged in the PIU. Segregation of duties cannot be ensured.</p>	<p>Intermediate:</p> <p>NIPAC Office, CPA/IA, MEDT, MCI</p> <p>Major:</p> <p>CFCU and MF/PIU</p> <p>New deadline for implementation:</p> <p>IV Q 2023</p>
Auditee	Envisaged work post related to IPA jobs by Rulebook	Result of WLA/2019	Currently employed																		
NF/NAO SO	13 - including NAO	13	11 (8- LTEC;3 TEC)																		
NIPAC Office	12 - Including NIPAC	12	10 (9 – LTEC; 1-TEC)																		
CFCU	37 - Including	37	31 (20-LTEC;11-TEC)																		

² Status in accordance with auditor's conclusion.

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		Head of IA						<p>We will further monitor implementation of the recommendation.</p> <p>Finding remains open, with major level of priority.</p> <p>MEDT/PIU</p> <p>WLA for 2023 envisaged 9 work positions.</p> <p>WLA 2023 is not in line with existing Rulebook on Internal Organization and Systematization because which MEDT initiate the change of the Rulebook.</p> <p>Lack of staff is present.</p> <p>We will further monitor implementation of the recommendation.</p> <p>Finding remains open, with intermediate level of priority.</p> <p>MCI/PIU</p> <p>Positions of Programming Manager were not foreseen in the current Rulebook on Internal Organisation and Systematization, because of which MCI/PIU is not able to engage Programming manager.</p> <p>We will further monitor implementation of the recommendation.</p> <p>Finding remains open, with an intermediate level of priority.</p>	
		DPW	39 - Including Direct or (Head of IA)	39	31 (16-LTEC;15-TEC)				
		MF	4 - including SPO	4	1 (LTEC)				
		MSDT	9 - including SPO	9	6 (5-LTEC;1-TEC)				
		MTMA	6 - Including SPO	6	6 (5 – LTEC;1-TEC)				
		MEC	5 - including SPO	5	4 (3-LTEC; 1-TEC)				
2.	IT Policy – Backup of data (Details: See section 4.2.1 of Final System Audit Report from 20 th October 2017) On the basis of performed on-the-spot checks and conducted interviews, we have found that archiving and backup of data is not performed in accordance with prescribed procedures. There is no properly defined back up storage. So, there is a risk of loss of data in case of error in information systems in which information is destroyed by failures or negligence in storage, transmission, or				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.	Intermediate: All IPA bodies	Audit Authority auditors took into consideration information submitted by IPA Bodies in the previous performed Follow up. Based on auditees' response, obtained documentation and checks performed, Audit Authority auditors found that IPA bodies created different back-up modules. Namely, IPA staff are currently using	Intermediate: All IPA bodies New deadline for implementation: IV Q 2023	

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	<p>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><i>Shared folder systems, in order to maintain all relevant data and documents. Once per week, most of them store all data from the Shared folder on external hard disk.</i></p> <p><i>Additionally, during performing the system audit for CAPs, IPA bodies that were audited, despite the cyber-attack, provided us with all requested documentation.</i></p> <p><i>Bearing in mind previously mentioned, Audit Authority auditors consider this finding partially implemented in respect to the back up of data, but we will monitor the implementation of activities defined by Action plan ISO 27002 which will lead to the full implementation of this recommendation.</i></p> <p><i>We will further monitor implementation of the recommendation.</i> <i>Finding remains open, with an intermediate level of priority.</i></p>	
3.	<p>Contingency plan developed</p> <p>(Details: See section 4.2.2 of Final System Audit Report from 20th October 2017)</p> <p><i>According to the Article 34 of the Government Decree for Information security (OG MNE No. 58/10; 55/15), business continuity plan should be developed and approved.</i> All bodies Operating Structure and Management structure of IPA II doesn't have contingency plan developed. There is risk for continuity of operations concerning loss of data, absence of individuals, and some other unpredictable situations.</p>	Development of the contingency plan with clear responsibilities and procedures is necessary.	Intermediate: All IPA bodies	<p><i>According to the Management response, there were no activities undertaken in the previous period. Ministry in charge for coordination of the upgrade of the AP ISO 27002 did not initiate changes and upgrade of referent AP.</i></p> <p><i>Finding remains open, with intermediate level of priority.</i></p>	<p>Intermediate:</p> <p>All IPA bodies</p> <p><i>New deadline for implementation:</i> IV Q 2023 :</p>
4.	<p>Internal audit capacities</p> <p>(Details: See section 4.4.1 of Final System Audit Report from 20th October 2017)</p> <p>During audit we identified that according Rulebook on internal organization and systematization four work posts have been envisaged in IAD in MSDT including the Head of IAD and three auditors. Currently three employees deal with internal audit matters. Head of the IAD and one senior auditor have Decisions on allocation on work posts in this department; Junior auditor has a temporary contract. All of employees which are dealing with internal audit have the adequate certificate for performing internal audit. Beside audit within MSDT which cover inter alia IB for IPA component III (DPW separate body</p>	In order to ensure timely and effective execution of internal audit function described in their procedures and plans, our recommendation is related to increasing capacities of internal audit with the aim of increasing coverage of audit areas which has a high impact on implementation of IPA funds which will provide management additional assurance about functioning of the IPA MCSS.	Intermediate: IAU	<p><i>Internal Audit Unit is still understaffed. 3 employees out of 6 envisaged by the WLA work in IAU.</i></p> <p><i>The finding remains open, with intermediate level of priority.</i></p> <p><i>We will further monitor the implementation of the given recommendation.</i></p>	<p>Intermediate:</p> <p>IAU</p> <p><i>New deadline for implementation:</i> IV Q 2023</p>

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	<p>within MSDT), Minister of the MSDT has signed agreements with additional six state bodies to implement internal audit for them.</p> <p>According Rulebook on internal organization and systematization of MTMA four work posts have been envisaged in IAD including the Head of IAD and three auditors. Currently there are two employees within IAD, one senior and one junior auditor. Senior auditor is acting head of the IAD. Both auditors have Decisions on allocation on work posts in this department and adequate certificate for performing internal audit.</p> <p>According Rulebook on internal organization and systematization of Ministry of Finance seven work posts have been envisaged in IAD including Head of IAD and six auditors (NFD, CFCU and Department for European Integration-PIU are under the Ministry of Finance). Currently five auditors have Decisions on allocation on work posts in this Department and adequate certificate for performing internal audit. However, one auditor is on maternity leave and another is working part time (4 hours) which means that just three employees are dealing with internal audit matters (full time). Beside audit within MF, Minister of the MF has signed agreements with additional seventeen state bodies to implement internal audit for them.</p> <p>According Rulebook on internal organization and systematization four work posts have been envisaged in IAD in MEC, including the head of IAD and three auditors. In the IAD is only one auditor employed, with adequate certificate for performing internal audit.</p> <p>Bearing in mind above mentioned and scope of activities of IAD, there is obvious lack of capacities within IADs in all IPA bodies and this fact may have an impact on the quantity and/or quality of audits that are envisaged in annual audit plans. There is a risk that some of the systems, processes or procedures with high impact on overall system will not be subject of the audit and that managers would not have additional assurance about functioning of their systems nor independent review on effectiveness and efficiency of the system.</p>				
5.	<p>Reports on implementation</p> <p>(Details: See section 4.7.1 of Final System Audit Report from 20th October 2017)</p> <p><i>According to the Article 53 of Framework Agreement for IPA II Sectoral Monitoring Committee shall review annual implementation reports, including financial execution of the actions.</i></p> <p><i>According to the Article 9 of Decree on organisation of the indirect management for implementation of Union financial assistance under Instrument for pre-accession assistance NIPAC Office coordinate and draw up annual and final implementation reports as provided in the Law, to be submitted to the NIPAC, after examination by the SMC as well as Article 3 of the Implementing Agreement for CAP 2014 the NIPAC based on the information and reports received from the operating structure ensure timely reporting to the European Commission. The NIPAC can issue guidance to the Implementing Agency and other bodies constituting the operating structure for</i></p>	<p>We recommend respecting procedures in relation to the preparation and submission Annual Implementation reports, as well as improving communication between NIPAC Office and PIUs.</p>	<p>Intermediate:</p> <p>NIPAC, Head of NIPAC Office, SPOs</p>	<p><i>According to the responses from the auditees and based on the submitted documentation we determinate that the procedures regarding the preparation of the Annual Implementation Report are still not fully respected.</i></p> <p><i>Namely, the conclusion of the previous SMC meeting from November 2021 was that the Semi-annual monitoring report would be adopted in the written procedure between NIPAC Office and EUD, this task hasn't been completed. We take into consideration difficulties regarding the changes in IPA structure and establishment of new ministries in April 2022 but by insight into submitted</i></p>	<p>Intermediate:</p> <p>NIPAC, Head of NIPAC Office, SPOs</p> <p><i>New deadline for implementation:</i></p> <p>Next Quarterly Monitoring and Annual Implementation Reports</p>

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	<p><i>submitting data for preparation of annual or final implementation reports for the submission to the European Commission.</i></p> <p>MoP Chapter Programme/Action Monitoring in details prescribes procedures related to NIPAC Office responsibilities in respect to preparation and submission of reports on implementation (Semi-Annual, Annual and Final Implementation Report).</p> <p>During the audit performed and based on insight in submitted documentation, we determined that procedures in respect to preparation of Annual Implementation Report for 2016 have not been fully implemented and respected. Namely:</p> <p>Annual Implementation Report for 2016 has been prepared and submitted to the European Commission in prescribed deadline (by 15th February 2017). However, Annual Implementation Report for 2016 has not been submitted for the reviewing and examination to the Sectoral Monitoring Committee and IPA Monitoring Committee by NIPAC Office;</p> <p>Annual Implementation Reports for 2016 has not been prepared based on all information, which should be submitted by SPOs/PIUs (Quarterly and Semi-Annual Monitoring Reports have not been prepared).</p> <p>During 2016 Semi-Annual Implementation Reports have not been prepared by NIPAC Office;</p> <p>In addition to the above, it is evident that procedures in respect to quality information checks and coordination of the reporting requirements have not been implemented. Namely, Quarterly and Semi-Annual monitoring Reports Checklists have not been prepared and signed and Time-Schedule, Guidelines and Instructions have not been issued and submitted to the SPOs/PIUs by NIPAC Office.</p>			<p><i>documentation it is clear that not all PIUs have delivered the QMR.</i></p> <p><i>We consider this finding remains open, with intermediate level of priority.</i></p>	
6.	<p>Lack of staff and segregation of duties</p> <p>Details: See section 4.1.2 of Final System Audit Report from 23rd December 2020)</p> <p>According to the Rulebook on internal organization and systematization of the Ministry of Interior, in Directorate for European integration and coordination pre-accession support of EU, 5 working posts are foreseen. By the insight into WLA number of needed employees for 2020 year is 3. The conclusion deriving from the AWP and the WLA are presented in a form of Recruitment Plan. In the period of performing system audit the total number of employees in PIU of Ministry of Interior was 2.</p> <p>Also, since three documents AWP, SAM and QMR are prepared and approved by the same person, supervision is not ensured by applying »four eyes« principle and double signature is not respected.</p> <p>In order to ensure segregation of duties and four eyes principle and considering the needs which are expressed in WLA for 2020, it is necessary to employ staff in accordance with the requirements which are prescribed in Rulebook on Internal Organization and Systematization of the Ministry of Interior.</p>	<p>In order to ensure effective functioning of the PIU and in order to ensure segregation of duties and four eyes principle we recommend taking the measures of filling the vacant posts foreseen in the Rulebook of Internal Organization and Systematization and needs expressed in Work Load Analysis.</p>	<p>Intermediate</p> <p>Ministry of Interior/PIU</p>	<p><i>Based on auditee's response PIU has undertaken activities related to the given recommendation. However, the lack of staff is still a present issue.</i></p> <p><i>We will continue to monitor the implementation of the recommendation.</i></p> <p><i>Finding remains open with the intermediate level of priority having in mind the above-mentioned.</i></p>	<p>Intermediate</p> <p>Ministry of Interior/PIU</p> <p><i>New deadline for implementation:</i></p> <p>IV Q 2023</p>

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7.	<p>Lack of appropriate The Decision on Appointment of Persons</p> <p>Details: See section 4.1.1 of Final System Audit Report from 20th January 2022</p> <p>At the first session of the newly elected Government of Montenegro which was held on December 7th, 2020 the new Decree on the organization and manner of work of the state administration was adopted. The mentioned Decree has significantly changed the organization of the entire state administration, and thus the Operating Structures that are included in the model of indirect management of EU pre-accession assistance (IPA II).</p> <p>It is not necessary to emphasize that Montenegro is obliged to comply with the provisions set up in the Framework Agreement signed with the European Commission, and all relevant documents, in terms of providing an efficient and effective system for the implementation of pre-accession support programmes (IPA II). Bearing in mind significant governmental changes, it is necessary to adopt a new Decision on Appointment of Persons Responsible for Decentralized/Indirect Management of Pre-Accession Funds of the European Union.</p>	Our recommendation is to adopt new Decision on Appointment of Persons Responsible for Decentralized/Indirect Management of Pre-Accession Funds of the European Union as soon as possible taking into consideration the governmental changes.	Major/ NAO	<p><i>We will continue to monitor the implementation of the recommendation.</i></p> <p><i>Finding remains open with the major level of priority.</i></p>	<p>Major</p> <p>NAO</p> <p><i>New deadline for implementation:</i></p> <p>as soon as possible</p>
8.	<p>Delays in a process of contracting</p> <p>Details: See section 4.1.2 of Final System Audit Report from 20th January 2022</p> <p>Financial Agreement for the Annual Country Action Programme for Montenegro for the year 2016 was signed on 22nd December 2017. The total estimated cost of Programme CAP 2016 is EUR 26.544.530,00. Addendum of Financing Agreement has been signed on August 8th 2020, as per Addendum, the total estimated cost of Programme CAP 2016, under indirect management is EUR 20.316.265,00. Allocated funds Montenegro should have used in the various fields such as: Environment and Climate Action, Strengthening the Competitiveness and Innovation sector of Montenegro.</p> <p>As the deadline for contracting the projects from CAP 2016 has expired on December 22nd, 2020, we determined that a significant part of the available funds from this Programme in a total amount of 6.336.118,00 have not been used.</p> <p>Namely, during the audit engagement we noticed that delays exist in all stages of the project lifetime. The main challenge during the contracting phase are delays in evaluation process which resulted in significant delays in relation to the further planned dynamics of contracting.</p> <p>When it comes to capacities in the field of implementation of EU support projects, significant personnel challenges were also identified having in mind that IAs have constantly turnover of the staff and outflow of experienced and trained staff. Above mention for the consequence had non-contracted funds under this program.</p>	Our recommendation is to respect the prescribed procedures which are related to the process of contracting specially process of the evaluation in order to conclude the contracts within the deadlines, which influences better and more efficient management and use of IPA funds which are at disposal to Montenegro.	Major/ CFCU and CPA	<p>We took into consideration that, delays in the contracting process and in particular, delays in the evaluation procedures, may not be attributed only to the CFCU and CPA and that is also the responsibility of PIUs.</p> <p>Still, as the coordinators of this process and responsibilities which IAs have, in accordance with all relevant procedures, prescribed by all relevant regulations and manuals, (IA) plays the key role in the contracting process being the Contracting Authority and having full responsibility in performing the functions as described in PRAG.</p> <p>It is not pure coincidence that Chairperson and the Secretary of the Evaluation Committee are from the relevant IA. That only demonstrate that, as we stated above, they have more responsibilities to organize the whole process and carry out the work in accordance with deadlines.</p> <p>Improved cooperation and communication with PIUs, will lead to at least less delays in future.</p>	<p>Intermediate</p> <p>CFCU and CPA</p> <p><i>New deadline for implementation:</i></p> <p>IV Q 2023</p>

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	By the insight into requested documentation and by testing, we determined that IAs still don't respect the deadlines prescribed with all relevant documents and the deadlines which they set for themselves which are also related to the process of contracting. Above mention may lead to the risk of non-contracting funds for future projects.			Finding remains open , with decreased level of priority.	
9.	<p>Planning of EU and national contribution</p> <p>Details: See section 4.1.3 of Final System Audit Report from 20th January 2022</p> <p>During the audit performed we determined that procedures regarding the planning of EU and national contribution are not respected by PWA.</p> <p>Namely, Ministry of Finance and Social Welfare, State Budget Directorate, has overall responsibility for budget preparation and execution - issues guidelines, coordinates the process, reviews, negotiates and approves the Requests for budget allocations of the spending units, arranges for execution of payments. The planning is performed as part of the process of preparation of the State Budget, which is described in the Law on Budget and Fiscal Responsibility and in special Instructions (Budget Circular).</p> <p>In accordance with prescribed procedures and all relevant documents 10 days after the receipt of the Instructions from the State Budget Directorate, IA should submit the <i>Three Years Disbursement Forecasts</i> to all relevant SPOs/PIUs in order to checks the data which concerns the concrete PIU actions.</p> <p>By the insight into requested documentation it was concluded that deadlines prescribed PWA are not respected. Namely, Instructions from the State Budget Directorate were sent to all bodies in the middle of September 2021. PWA has submitted <i>Three years Disbursement forecasts</i> in the beginning of November 2021, although, the deadline for submission was 10 days from the receipt of this instructions. From the mention, it is obvious that the deadline has been exceeded.</p> <p>In accordance with above mention we concluded that procedures regarding the planning of funds are not respected, which may lead to risk of not providing funds for planned projects.</p>	Respecting written procedures in respect to the planning of EU and national contributions.	Intermediate/ CPA	In accordance with the response we consider this finding closed but we will monitor compliance with procedures with special reference to deadlines.	/
10.	<p>Lack of Staff</p> <p>Details: See section 2.2 of Final Report on Audit of Operation from 20th January 2022</p> <p>The purpose of the contract was, inter alia, procurement, delivery, installation, commissioning, training and warranty for equipment for upgrading 7 existing and establishing 3 new automatic fixed measuring stations for the system for</p>	<p>Having in mind that this station has a special importance we recommend</p> <p>engagement of one employee for the station in Velimlje.</p>	Major/ MESPU	<p><i>We will continue to monitor the implementation of the recommendation.</i></p> <p><i>Finding remains open with the intermediate level of priority.</i></p>	<p>Intermediate</p> <p>MESPU</p> <p><i>New deadline for implementation:</i></p> <p>as soon as possible</p>

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	<p>ambient air quality monitoring (one of them is a European Monitoring and Evaluation Programme (EMEP) station.</p> <p>EMEP is the co-operative programme for monitoring and evaluation of the long-range transmission of air pollutants in Europe (in officially 'European Monitoring and Evaluation Programme' = EMEP). It is a scientifically based and policy driven programme under the Convention on Long-range Transboundary</p> <p>Air Pollution (CLRTAP) for international co-operation to solve transboundary air pollution problems.</p> <p>The Convention on Long-range Transboundary Air Pollution (LRTAP), signed in 1979, is one of the</p> <p>central means for protection of environment.</p> <p>Having in mind above mention it is not necessary to underline the importance of the EMEP station</p> <p>which is located in Velimlje. Also, this station is the only one that kind in Montenegro.</p> <p>Audit Authority performed On the Spot Check Verification (OTSV) in Velimlje with the representatives of the Institute of Hydrometeorology and Seismology of Montenegro having in mind that they have jurisdiction over this station.</p> <p>Namely, in accordance with relevant documentation, equipment which is obtained through the contract is, inter alia, <i>Container for accommodation and stay of employee working in the EMEP station</i>. During the field work, we determined that above mention equipment is installed in Velimlje, but no one is still</p> <p>employed in this station. Bearing in mind that employment procedures take a long time, we suggest starting with this process as soon as possible in order to fulfill this position and in order to respect the provisions from the Contract.</p>				
11.	<p>Incorrectly presented amount of recovery in the field “Recovery context” in AFR1</p> <p>Details: See section 2 of Final Report on Audit of Accounts from 11th March 2022</p> <p>According to the requirements of Annex 4 (a) of the Financing agreement for CAP 2014 the amount of recoveries have to be presented in the field “Recovery context”.</p>	<p>The total amount presented in field “Recovery context” of AFR1 should contain only recovered amounts.</p>	<p>Intermediate/ NFD and CFCU</p>	<p><i>We consider this finding closed. Since the amount form the finding is recovered during 2022, finding is not applicable any more.</i></p>	<p>/</p>

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	<p>By the insight into AFR1 for 2021, for CAP 2014/032-803, in the field No 17 "Recovery context" the total amount presented is 465,265.20€.</p> <p>Based on the audit performed we determined that the presented amount was not correct.</p> <p>Namely, the contractor of the Supply contract CFCU/MNE/064 (whose contract is terminated in 2019) returned the total amount of the 363,950.00€ during 2019.</p> <p>However, the contractor of the Grant contract CFCU/MNE/058 did not refund the amount of 101,315.20€. For this amount recovery order was issued on December 13th, 2021, but recovery was not executed by the end of 2021. In accordance with the above mention, the amount of 101,315.20€ should not have been included in the amount of 465,265.20€ which is presented in the column "Recovery context".</p> <p>Request for recovery for the amount of 101.315,20€ (EU contribution 91.549,88€ and National contribution 9.765,32€) is recorded in the accounting system of the CFCU.</p>				
12.	<p>Book keeping entries of purchased supplies</p> <p>Details: See section 2.2.1 of Final Report on Audit of Operation from 29th December 2022</p> <p>During the on the spot check controls which are performed in the bodies - final recipients of assistance, for above mentioned contracts we determined as follows:</p> <ul style="list-style-type: none"> - In Revenue and Customs Administration, for purchased supplies within Contract CFCU/MNE/176, inventory numbers are not assigned and they are not entered in accounting evidence of the Revenue and Customs Administration. Also, we determined that for delivered items within this contract, there is adequate supporting documentation (Packing list, Minutes of acceptance of supply). - In Sector for Prevention of Money Laundering and terrorist financing, for supplies purchased within follows contracts: <ol style="list-style-type: none"> 1. CFCU/MNE/173-Supply of computer equipment and multimedia room equipment for Sector for Prevention of Money Laundering and terrorist financing - Lots 1&3; 2. CFCU/MNE/174-Supply of computer equipment and multimedia room equipment for Sector for Prevention of Money Laundering and terrorist financing - Lot 2 and 3. CFCU/MNE/178-Supply of computer equipment and multimedia room equipment for Sector for Prevention of Money Laundering and terrorist financing - Lot 2, 	<p>We recommend to Revenue and Customs Administration and to Ministry of Interior to ensure book keeping entries of the purchased supplies and to assign inventory numbers, in accordance with Law on state property (OG MN No. 021/09; 040/11) and other relevant national regulations, and with a view to meeting all requirements defined by Framework and Financing Agreement.</p>	<p>Intermediate/</p> <p>MF/PIU and Final recipient of assistance: Revenue and Customs Administration of Montenegro;</p> <p>MI/PIU and Final recipient of assistance: Sector for Prevention of Money Laundering and terrorist financing</p>	<p><i>Since the PiUs - MF (Revenue and Customs Administration) and MoI (Sector for Prevention of Money Laundering and terrorist financing), submitted relevant evidence, we consider this finding closed.</i></p>	/

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	<p>inventory numbers were not assigned and purchased supplies were not entered in accounting system of the Ministry of Interior. Also, during the OTSC, for above mentioned contracts, we were not provided by relevant supporting documentation (Packing list, Minutes of acceptance of supply) from the PIU/Final recipient of the assistance.</p> <p>Above mentioned is not in accordance with Framework Agreement where is stated that the IPA II beneficiary shall maintain records and accounts adequate to identify the services, supplies, works and grants financed under the related Financing Agreement.</p>				
13.	<p>Protentional non-fulfilment Operation's objective</p> <p>Details: See section 2.2.2 of Final Report on Audit of Operation from 29th December 2022</p> <p>During the audit we determined that the contractual obligation from Contract CFCU/MNE/176- Supply of hardware for the expansion of existing Server and Storage system's capacity of the Customs Administration, are performed.</p> <p>However, during the On the Spot Check which is performed in Revenue and Custom Administration, we determined that there is no VM WARE license for 4 Servers for blade chassis. This license is necessary in order to provide fully integration of those servers into existing information system. Namely, administration of each separately server is possible, but administration of servers or from central point (V Centre) is not enabled. Supplied servers are currently in use as back up variant, in case of failure of the existing server.</p> <p>Consequently, all articles prescribed by relevant regulations (Article 5 of Framework Agreement and Clause 4 Point 2 of the Annex A also of the Framework Agreement, and Part II, Chapter Contract implementation and OTSC of MoP for PIU) were not respected.</p> <p>Bearing in mind the defined objectives for Activity 3.1.2.1 Upgrading of the Customs Information system (CIS) with new functionalities in Action document Support to the rule of Law and fundamental rights sector (IPA 2018 040-218 3 ME ROL) and in Financial Agreement, as well as, the fact that a part of supplied equipment is not fully integrated into existing system, due to lack of the appropriate license, we can conclude that the sustainability of this contract is questionable. Finally, this can lead to the recovery of funds in accordance with Article 7 - Recovery of funds of the Financial Agreement where is stated: (1) In addition to cases referred to in Article 41 of the Framework Agreement, the Commission may recover the funds from the IPA II beneficiary as provided in the Financial Regulation, in particular in case of: (a) the Commission established that objectives of the Programme set out in Annex I are not achieved.</p>	<p>We recommend that PIU/Ministry of Finance, in coordination with final recipient of assistance – Revenue and Custom Administration, as soon as possible, solve the problem of supply of VMWARE license for Servers for blade chassis, in order to be able to achieve the objective of the Action 3 in order to avoid potential recovery of EU funds.</p> <p>Also, we recommend that PIU, in accordance with its responsibilities defined by MoP, occasionally performs monitoring of sustainability of the contract</p>	<p>Major/ MF/PIU</p>	<p><i>Bearing in mind that process of purchase of VM WARE licence for 4 Servers for blade chassis are not finished, finding remained open. Since that process of purchase starts we reduced level of priority from major to intermediate and new deadline is IIQ 2023.</i></p>	<p>Intermediate MF/PIU</p> <p><i>New deadline for implementation: II Q 2023.</i></p>

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14.	<p>Failure to follow procedures- CFCU/MNE/141, CFCU/MNE/060 and CFCU/MNE/176</p> <p>Details: See section 4.1.1 of Final System Audit Report from 30th December 2022</p> <p>By reviewing the documentation for the Contracts CFCU/MNE/141, CFCU/MNE/060 and CFCU/MNE/176 we determined that deadlines and procedures related to implementation of contracts, regulated by PRAG, Special Conditions of Contracts and MoP were not fully respected.</p> <p>CFCU/MNE/141</p> <p>AA auditors noticed that Draft version of the Final Report was received on 15th November 2021, which is one month before the end of the implementation period (14th December 2021). Final report was received on 30th December 2021.</p> <p>Invoice/Payment request from Contractor was received in the CFCU/IA on 15th March 2022, even though the Final Report has been delivered on 30th December 2021. The Financial Report for the last implementation period was not part of the Final Report and the Invoice did not accompany the Final Report.</p> <p>CFCU/MNE/060</p> <p>AA auditors noticed that Draft version of the Final report was received on 26th October 2021, which is one month before end of the implementation period (26th November 2021). The Final report has been delivered on 21st December 2021.</p> <p>Invoice/Payment request from Contractor was received in the CFCU/IA on 13th April 2022, even though the Final Report has been delivered on 21st December 2021. The Financial Report for the last implementation period was not part of the Final Report and the Invoice did not accompany the Final Report.</p> <p>CFCU/MNE/176</p> <p>By reviewing the documentation, we noticed that CFCU received invoice/payment request on 15 October 2021. OTSC was performed on 26th October 2021. CFCU noticed that Certificates of Origin were missing, were required as additional information/documentation. Contractor submitted Certificate of Origin on 7 December 2021. However, the Provisional Acceptance was signed by all parties on 15 February 2022. The procedure from receiving Certificate of Origin to signing the Provisional Acceptance took a long time.</p>	<p>We recommend respecting reporting procedures and deadlines, regulated by contracts and prescribed procedures.</p> <p>Also, we suggest improving cooperation and communication with PIUs, as well as Contractors, in order to avoid such delays in future.</p>	<p>Intermediate/</p> <p>CFCU</p>	<p><i>We took into consideration all explanations and documentation you have sent.</i></p> <p><i>Even though we understand the situation described and your efforts to implement contracts on time, Special and General Conditions of Contracts still must be respected.</i></p> <p><i>We agree that the CFCU cannot influence other institutions in the system to perform their tasks faster. However, having in mind that, according to the Decree on organisation of the indirect management for implementation of Union financial assistance under Instrument for pre-accession assistance, among other regulation, IA is responsible for monitoring implementation at contract level, reporting to the NIPAC office on implementation of the contracts and proposing amendments to the documents at sector /action level to the NIPAC office, if any, we consider that if the CFCU notices eventual lack of work performance or delays in work of other institutions, it has to react, at a higher level.</i></p> <p><i>Improved cooperation and communication with PIUs, as well as Contractors, will lead to at least less delays in future.</i></p> <p><i>Finding remains open with the intermediate level of priority.</i></p>	<p>Intermediate</p> <p>CFCU</p> <p><i>New deadline for implementation:</i></p> <p>IV Q 2023.</p>
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15.	<p>Inadequate performed control activities</p> <p>Details: See section 4.1.2 of Final System Audit Report from 30th December 2022</p> <p>According to the requirements of Annex B – Internal Control Framework from Framework Agreement: <i>3a (iii) “Procedures, including checklists, for each step of procurement and grant calls (e.g. technical specifications, evaluation committees, reporting of exceptions etc.) ensuring each member of staff is clear as to their responsibilities in these areas”</i></p> <p>Additionally, according to the MoP procedure V.2.0, which was valid version in the time of performing contract procedures for Service contract – PWA/MNE/IPAI/CAP16/SER/01-908/20-10606/1 Support to Project Preparation for Environment and Climate Change Sector, Montenegro and for Service contract – PWA/MNE/IPA II/CAP17/SER/01-908/21-4474/1 Technical assistance for project preparation of investment projects in the transport sector in Montenegro, it is stated that:</p> <p><i>“procedures specific to each type of procurement are detailed and are supported by checklists which should be applied before forwarding any documents to the EUD for ex-ante control”. Also, Checklists are being used by the staff and verified by the line management before forwarding any documents to the Head of IA for approval and quality control is performed by the Quality Assurance Division reporting directly to Head of IA. The detailed checklists are given as annexes in the MoP procedures V.2.0, depending on the type of contract.</i></p> <p>During the audit performed and based on insight in submitted documentation for above mentioned contracts we concluded that:</p> <p>For the Service contract – PWA/MNE/IPAI/CAP16/SER/01-908/20-10606/1</p> <ul style="list-style-type: none"> - CL for PIN is prepared but not signed and dated by any relevant person or verified by Head. - CL for CN was prepared, but not signed and dated by Head of Quality Assurance Division. - CL for resubmission of CN was prepared, but not signed and dated by Head of QAD. - CL for TD was prepared, but not signed and dated by Head of QAD. - CLs for revised TD were not filled in by CM2 and QAS, but they are signed by all except by Head of QAD. - CL for ToR was not appropriate filled in, filled in only by CM1 and signed by all except by Head of QAD - We were not provided with CL of Ev.com. - We were not provided with CL of Contract Dossier. 	<p>We recommend respecting the procedures prescribed by the MoP and given annexes, to ensure adequate cross-checking controls.</p>	<p>Intermediate/ CPA/IA</p>	<p><i>We will monitor implementation of recommendation.</i></p> <p><i>Finding remains open with the intermediate level of priority.</i></p>	<p>Intermediate/ CPA/IA</p> <p><i>New deadline for implementation:</i></p> <p>Next performing of the controls</p>
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	<p>Regarding the Service contract – PWA/MNE/IPA II/CAP17/SER/01-908/21-4474/1 Technical assistance for project preparation of investment projects in the transport sector in Montenegro</p> <ul style="list-style-type: none"> - CL for the CN was signed and approved by the Head of QA Division. CL is not appropriately filled in. Not signed by all relevant persons. - CL for TD was performed for the both versions of TD (first version was rejected) but the CL it is not dated and sign by the Head of QA Division. Also, the columns in the CL are not completely filled in. - CL for the CN was signed and approved by the Head of QA Division but it is not signed by all relevant persons. Also, the CL is not appropriately filled in. - We were not provided by CL for Tender Opening Report. - We were not provided by CL for the Evaluation Report. - We were not provided by CL for Contract Dossier. - We were not provided by CL for Award Notice. <p>According to the above mentioned, neither one check was performed adequately or was not performed at all. Performing controls is necessary in order to ensure that control activities that contribute to the mitigation of risks to the achievement of objectives are identified and developed at all levels of the organization.</p>				
16.	<p>Lack of audit trail</p> <p>Details: See section 4.1.3 of Final System Audit Report from 30th December 2022</p> <p>By the insight into Request for Funds to the EC for Annual Action Programme for Montenegro for 2018 for Budget line 2018/040-220 and Request for Funds to the EC for Annual Action Programme for Montenegro for 2018 for Budget line 2018/040-218 with supporting documents, arrangements with the Central Bank for transferring of EU part of funds based on the DMS orders we have established the following:</p> <ul style="list-style-type: none"> - Even the DMS orders for transferring EU part of funds were prepared correctly, funds in the amount of 3 844 832.38 received to the Central Bank of Montenegro according to the Request for Funds to the EC for Annual Action Programme for Montenegro for 2018 for Budget line 2018/040-220, were first recorded in the account MF-NF-IPA-CAP 2018 (account of the budget line 2018/040-218) instead of the account MF-NF-IPA-CAP 2018 OBJECTIVE 2 (account of the budget line 2018/040-220). It was corrected the same day, in the way that the funds were transferred from MF-NF-IPA-CAP 2018 to the MF-NF-IPA-CAP 2018 OBJECTIVE 2; 	We recommend providing adequate audit trail.	Intermediate/ NFD	<p>We took into consideration all documentation you have provided.</p> <p><i>We agree that the DMS provided CBCG with the instructions for allocation of funds to the relevant IPA account, which we emphasized in the finding. However, bearing in mind functions and responsibilities of DMS we consider that DMS should have noticed before auditors that omission occurred. The fact that the EC has not noticed does not mean that there was no omission. Added valued or purpose of ensuring adequate trail is, among others, to avoid similar situation in future. Adequate audit trail should have been ensured, in accordance with Article 32 of Framework Agreement. Attached e-mail communication with CBCG cannot be considered as relevant evidence. It is necessary to provide official letter from the CBCG that explains the situation occurred,</i></p>	<p>Intermediate</p> <p>NFD</p> <p><i>New deadline for implementation:</i></p> <p>II Q 2023</p>

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	- By the insight into accounting records, we noticed that there is no audit trail that above mentioned happened.			<i>especially when it comes to the fact that transaction seen on the Analytical Card was not recorded in the bank statement of 25/5/2022.</i> <i>We will monitor implementation of recommendation.</i>	
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2. Conclusion on audit objectives

During the follow up 3 findings out of 16 were closed. Open findings/recommendations will be follow up in the forthcoming period.

During the follow up we have concluded that there was a delay in implementation of the recommendations.

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Overview of the number of given and closed findings and recommendations per Reports:

Period	Findings	Closed findings	Open Findings
Final System Audit Reports			
Final Report for 2017	15	10	5
Final Report for 2018	1	1	/
Final Report for 2019	3	3	/
Final Report for 2020	4	3	1
Final Report for 2021	3	1	2
Final Report for 2022	3	/	3
Final Operation Audit Reports			
Final Report for 2019	1	1	/
Final Reports for 2021	2	1	1
Final Reports for 2022	3	2	1
Final Audit of Accounts Reports			
Final Report for 2020	2	2	/
Final Report for 2021	1	1	/

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

During 2022 the AA carried out system audit for CAP 2014, CAP 2016, CAP 2017, CAP 2018 and CAP 2020 and two audits of operations (for CAP 2014 and CAP 2018). In the period January-February 2023 the Audit Authority regularly performed follow-up of the findings and recommendations given in the course of previous audits.

Regarding the abovementioned, the AA has all necessary elements to express overall assurance on the proper functioning of the management and control system.

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

As a result of the system audit, the management, control and supervision systems established for IPA II CAP 2014, 2016, 2017, 2018, 2022 are assessed as „works, but some improvement(s) are needed”. Therefore, it is appropriate to issue an unqualified opinion on the proper functioning of the MCSS.

Based on performed audits of operations we have obtained reasonable assurance that the audited expenditure declared are in all material aspects, legal and regular. During the audit, no transaction findings were identified. Therefore, it is appropriate to issue an unqualified opinion on the legality and regularity of expenditure.

The assurance on the accounts is based on the results of the audit of accounts as described in section 6.2 of this AAAR. Based on the audit work performed we have obtained reasonable assurance on reliability of the annual financial reports or statements/annual accounts for the accounting year 2022 for: CAP 2014 (2014/032/022 and 2014/032-803), CAP 2016 (2016/037-896), CAP 2017(2017/040-216 and 2017/039-816), CAP 2018 (2018/040-218 and 2018/040-220) and CAP 2020 (2020/042-142 and 2020/042-145).

Namely, during the audit performed we concluded that the amount regarding the disbursed amount and executed recoveries, as well as total contracted amount, were adequately treated in accounting system of IA. However, during the preparation of AFR (which is in jurisdiction of NFD), an incorrect data entry occurred.

Bearing in mind above mentioned, we consider that nature of this findings cannot affect to reasonable assurance on reliability of the AFR for CAP 2014 and CAP 2020 for accounting year 2022, therefore, it is appropriate to issue an unqualified opinion.

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

Not applicable.

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

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

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

Not applicable.

10. TABLE FOR DECLARED EXPENDITURE AND SAMPLE AUDITS

				A	B		C	D	E		F	G	H=F-G	GI	JH
Fund	Reference (CCI)		Programme	Expenditure declared to the Commission in reference to the year	Expenditure in reference to the financial year audited for the random sample		Total number of units in the population	Number of sampling units for the random sample	Amount and percentage (error rate) of irregular expenditure in random sample		Total projected error rate	Corrections implemented as a result of the total error rate	Residual total error rate	Other expenditure audited	Amount of irregular expenditure in other expenditure sample
					Amount	%			Amount	%	%				
	C (2014/032/022)		Annual Country Action Programme for Montenegro for the year 2014	2,140,956.13	443,625.00	20.72%	6	1	0.00	0.00%	0.00%	0.00	0.00	/	/
	C (2016/037-896)		Annual Country Action Programme for Montenegro for the year 2016	/	/	/	/	/	/	/	/	/	/	/	/
	C (2017) (2017/040-216 and 2017/039-816)		Annual Country Action Programme for Montenegro for the year 2017	/	/	/	/	/	/	/	/	/	/	/	/
	C (IPA/2018/040-218 and IPA/2018-040-220)		Annual Country Action Programme for Montenegro for the year 2018	371,413.47	371,413.47	100%	4	4	0.00	0.00%	0.00%	0.00	0.00	/	/
	C (2020/042-142 and 2020/042-145)		Annual Country Action Programme for Montenegro for the year 2020	/	/	/	/	/	/	/	/	/	/	/	/