



**MONTENEGRO
AUDIT AUTHORITY**

Nº: 3011-4-06-199

Date: 15th March 2023

ANNUAL AUDIT ACTIVITY REPORT

OF THE AUDIT AUTHORITY FOR

IPA II 2014-2020 CROSS-BORDER COOPERATION PROGRAMME

“MONTENEGRO – KOSOVO”

FOR THE PERIOD

1st JANUARY 2022 – 31st DECEMBER 2022

Podgorica, March 2023

Contents

1. INTRODUCTION.....	7
1.1 Details of the responsible Audit Authority and other bodies that have been involved in preparing the Report	7
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)	7
1.3 Identification of the sector/policy area(s) covered by the report and of its/their operating structure and management structure.....	9
1.4 Description of the steps taken to prepare the report and to draw the audit opinion.....	10
2. SUBSTANTIAL CHANGES IN MANAGEMENT AND CONTROL SYSTEMS.....	10
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.....	10
2.1.1 Changes in the MCS in Montenegro since last Annual Audit Activity Report	10
2.1.2 Changes in the MCS in Republic of Kosovo since last Annual Audit Activity Report.....	12
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	12
3. CHANGES TO THE AUDIT STRATEGY	12
4. SYSTEMS AUDITS	12
4.1. Details of the bodies that have carried out system audit	12
4.2 Summary table of the audits carried out, with the indication of the authorities/bodies audited, the assessment of the key requirements for each body, issues covered and comparison to the audit planning	14
4.3 Description of the basis for selection of the audits in the context of the audit strategy	15
4.4 Description of the principal findings and conclusions drawn from the audit work for the management and control system and their functioning	16
4.4.1 Principal Findings and recommendations related to MCSS	17
4.5 Description of specific deficiencies related to the management of financial instruments	21
4.6 Level of assurance obtained following the system audit (low/average/high) and jurisdiction .	21
5. AUDITS OF SAMPLES OF TRANSACTIONS	21
5.1 Authorities/bodies that carried out the sample audits, including the audit authority	21
5.2 Description of the sampling methodology applied and information whether the methodology is in accordance with the audit strategy.....	21
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.....	22
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	22
5.5 Where there are negative items, confirmation that they have been treated as a separate population.....	24
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.....	24
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).....	25
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. .	25
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....	27
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.....	29
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.....	29
5.12 Residual total error rate following the implementation of the above-mentioned corrections and significance for the audit opinion.....	29
5.13 Information on the results of the audit of the complementary (e.g. risk based) sample, if any.	29
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.	30

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.	30
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.	30
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.	30
5.18 Conclusions drawn from the results of the audits with regard to the effectiveness of the management and control system.	30
6. AUDITS OF THE ANNUAL FINANCIAL REPORTS OR STATEMENTS/ANNUAL ACCOUNTS	30
6.1 Indication of the authorities/bodies that have carried out audits of the annual financial reports or statements/annual accounts.	30
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.	31
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.	35
6.4 Indication of whether any problems identified were considered to be systemic in nature, and the measures taken.	35
7. FOLLOW-UP OF PREVIOUS YEARS' AUDIT ACTIVITY	36
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.	36
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.	41
8. OTHER INFORMATION	41
8.1 Information on reported fraud and suspicions of fraud, together with the measures taken. ...	41
8.2 Subsequent events occurred after the submission of the declaration of expenditure and financial statements and before the transmission of the annual audit activity report under Art. 12 (3) of Commission Implementing Regulation (EU) No 447/2014 to the Commission and considered when establishing the level of assurance and opinion by the audit authority.	41
8.3 Any other information that the audit authority considers relevant and important to communicate to the Commission, in particular to justify the audit opinion, is reported in this section.	41

9. OVERALL LEVEL OF ASSURANCE	41
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.....	41
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.....	42
9.3 Assessment of the corrective action necessary both from a system and financial perspective.....	42
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.	42
10. TABLE FOR DECLARED EXPENDITURE AND SAMPLE AUDITS	44

List of abbreviation

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

1. INTRODUCTION

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

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

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

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

The Audit Authority is responsible for verifying:

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

The Audit Authority of Montenegro is responsible for the performance of audit tasks in respect of the IPA II 2014-2020 Cross-Border Cooperation Programme "Montenegro-Kosovo" (C (2014) 9307). It has been assisted by the Group of Auditors (GoA) composed of representatives by the Audit Authority of Montenegro and Central Harmonization Unit for Internal Audit (CHU-IA) within Ministry of Finance of Kosovo.

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

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

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

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

In the period July 2022 - December 2022 Audit Authority performed system audit of functioning of Management, Control and Supervision System established for implementation of IPA II 2014-2020 CBC Programme "Montenegro-Kosovo". Also, the follow up of the findings and recommendations given in the course of previous audits was included in the system audit engagement.

Based on level of implementation of IPA II 2014-2020 CBC Programme "Montenegro-Kosovo", as well as in accordance with adopted Audit Strategy for period 2022-2024 and results of performed risk assessment, the following bodies being part of the management, control and supervision system and key requirements were covered by the system audit:

- **CA/CFCU:** Control Activities;
- **Control Body:** Control Activities.

During February 2023 the Audit Authority performed follow-up of the findings and recommendations given in the Final reports of performed audits in period 2017-2022. Follow-up was performed as separate activity before issuing the AAAR and the AAO.

In the period November 2022 - January 2023 Audit Authority performed audit of operation on the sample of operations for which the expenditures were declared to the European Commission (EC) during 2022.

During the reference year (2022), one Declaration of Expenditure was sent to the European Commission (EC) regarding 2016 financial allocation and one Declaration of Expenditure regarding 2017 financial allocation. As for financial allocations for 2014, 2015, 2018, 2019 and 2020 no expenditures were declared during the year 2022. The population for audit of operations consisted of operations for which the cost recognized by the IA/CFCU has been declared to the EC.

Regarding 2016 allocation **recognised cost has been declared for four (4) operations in the total amount of 483.972,06€** out of which 411.322,93€ is EU part and 72.649,13€ is private co-financing (other sources).

Regarding 2017 allocation **recognised cost has been declared for three (3) operations in the total amount of 304.698,73€** out of which 258.993,92€ is EU part and 45.704,81€ is private co-financing (other sources).

Non-statistical sampling was applied for the selection of sample of operations as applicable for small populations. Since the MCSS is the same for both Action Programme, these action programmes and population are grouped in one population which consists of 7 operations including 788.670,79 € of total cost recognised included in CA accounting records and declared to the Commission in the financial year 2022. One single sample representative of the grouped population has been selected but applying stratification per programme. One strata includes operations within Action Programme 2016 and another strata operations within Action Programme 2017.

Two (2) operations were selected in the sample amounting to 478.260,51€.

Sampled operations are as follow:

- 1st Stratum – Action Programme 2016

- CFCU/MNE/152 - “Culture heritage - Treasure of cross border region”

- 2nd Stratum – Action Programme 2017

- CFCU/MNE/151 - “Transhumance - new tourism offer of Kosovo and Montenegro”.

At the end of February and beginning of March 2023, Audit Authority performed audit of the annual financial reports for the year 2022 and assessment of the Management declaration for the respective Programme.

NAO submitted Annual Financial Report for 2022 on 15th February 2023.

The amounts declared in the Annual Financial Report for 2022 are presented in the table below:

Programme Reference	Financing Agreement contract number	Total Amount Disbursed		Total Costs Recognised		Total Open Pre-financing		Bank Balances (EU contribution)	Forecast disbursements
		EU contribution	Other sources	EU contribution	Other sources	EU contribution	Other sources		Next 12 months
CBC MNE-KOS 2014	2014/037-592	829.805,08	0,00	829.805,08	146.584,81	0,00	0,00	3.358,64	0,00
CBC MNE-KOS 2015	2015/038-161	1.063.957,26	0,00	1.042.326,17	186.564,86	21.631,09	0,00	122.872,40	0,00
CBC MNE-KOS 2016	2016/038-182	1.023.890,90	0,00	411.248,01	72.635,90	612.642,89	0,00	173.585,31	176.109,10
CBC MNE-KOS 2017	2017/038-183	542.373,22	0,00	322.779,35	56.961,06	219.593,87	0,00	274.305,01	297.626,78
CBC MNE-KOS 2018	2018/041-472	0,00	0,00	0,00	0,00	0,00	0,00	960.000,00	837.235,21
CBC MNE-KOS 2019	2019/041-474	0,00	0,00	0,00	0,00	0,00	0,00	960.000,00	641.178,10
CBC MNE-KOS 2020	2020/041-475	0,00	0,00	0,00	0,00	0,00	0,00	864.000,00	676.492,02

During the audit AA verified whether the Annual Financial Reports/Financial Statements give a true and fair view as well as the completeness, accuracy and veracity of the annual financial reports or statements and the underlying annual accounts. The audit of accounts in respect of accounting year 2022 has been carried out in the second half of February and beginning of March 2023.

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

The Annual Audit Activity Report covers the Cross-Border Cooperation Action Programme "Montenegro-Kosovo" for the year 2014 (2014/037-592), the Cross-Border Cooperation Action Programme "Montenegro-Kosovo" for the years 2015-2017 (2015/038-161, 2016/038-182 and 2017/038-183) and Cross-Border Cooperation Action Programme "Montenegro-Kosovo" for the years 2018-2020 (2018/041-472, 2019/041-474 and 2020/041-475) which provide assistance for cross-border cooperation in the thematic area spelled out in the IPA II 2014-2020 CBC Programme "Montenegro – Kosovo" (C(2014) 9307).

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

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

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

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

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

With a view to drawing up an audit opinion, Audit Authority assessed results of audit activities from the audits of management, control and supervision system and audit of operation performed during 2022, result of follow up of the findings and recommendations, results of audit of annual financial reports for 2022 and assessed the consistency of the management declaration with regard to performed audit work.

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

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

2. SUBSTANTIAL CHANGES IN MANAGEMENT AND CONTROL SYSTEMS

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

During 2022, the NAO informed the European Commission and Audit Authority about substantial and planned changes in the system. The following changes occurred in 2022:

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

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

At the session held on 29th April 2022, the Government of Montenegro adopted new Decree on the organisation and manner of work of the state administration.

Deputy NAO informed European Commission and Audit Authority on this change on 7th July 2022. (Letter N°: 17-908/22-180821)

The bodies of Management and Operating Structure of the CBC Programme Montenegro-Kosovo remained the same organisation and functions within newly organised state administration.

– National IPA Coordinator

At the session held on 1st July 2022, the Government of Montenegro gave its consent to the proposal regarding the appointment of Mr Aleksandar Mašković on the position of the State Secretary in the Ministry of European Affairs and National IPA Coordinator. However, mandate of Ms Mašković was terminated at the session of the Government held on 8th December 2022. The function of NIPAC was performed by Mr Bojan Vujović, Deputy NIPAC until 20th January 2023, when the Government of Montenegro appointed Ms Milena Žižić, the State Secretary in the Ministry of European Affairs, as the National IPA Coordinator.

Deputy NAO informed European Commission and Audit Authority on these personal changes on 7th July 2022 (Letter N^o: 17-908/22-180821) and 3rd February 2023. (Letter N^o: 05-908/23-60/1)

– **National Authorising Officer**

The mandate of Ms Janko Odović as the National Authorising Officer was terminated at the Government session held on 29th April 2022. At the session held on 1st July 2022, the Government of Montenegro gave its consent to the proposal regarding the appointment of Ms Mila Kasalica on the position of the State Secretary in the Ministry of Finance and National Authorising Officer. Mandate of Ms Kasalica was terminated at the session of the Government held on 8th December 2022. The function of NAO was performed by Ms Anja Amidžić, Deputy NAO until 20th January 2023, when the Government of Montenegro appointed Ms Ana Raičević, the Secretary General in the Ministry of Finance, as the National Authorising Officer.

Deputy NAO informed European Commission and Audit Authority on these personal changes on 7th July 2022 (Letter N^o: 17-908/22-180821) and 3rd February 2023. (Letter N^o: 05-908/23-60/1)

– **Head of Operating Structure**

At the session held on 3rd August 2022, the Government of Montenegro terminated the mandate for Ms Irena Bošković as Head of Operating Structure for CBC Programmes implemented in indirect management. At the same session, the Government appointed Mr Bojan Vujović to perform the HOS function and also to cover the positions of the acting Director General for EU Funds in the Ministry of European Affairs as the Head of NIPAC Office and Deputy NIPAC.

Deputy NAO informed European Commission and Audit Authority on this personal change on 3rd February 2023. (Letter N^o: 05-908/23-60/1)

– **Head of Directorate for Management Structure/Deputy NAO**

On 7th March 2022 Ms Ivana Maksimović submitted a request for the termination of the mandate as the Director General of Directorate for Management Structure/Deputy NAO. At the session held on 20th April 2022, the Government of Montenegro appointed Ms Anja Amidžić to that position. The Government of Montenegro adopted Decision on re-appointment of Ms Anja Amidžić as the Deputy NAO/Director General of DMS at the session held on 28th December 2022.

Deputy NAO informed European Commission and Audit Authority on this personal change on 7th July 2022. (Letter N^o: 17-908/22-180821)

– **Head of Directorate for Finance and Contracting of the EU Assistance Funds**

At the session held on 6th October 2022, the Government of Montenegro terminated the mandate of the Director General of Directorate for Finance and Contracting of the EU Assistance Funds – Ms Marija Vukčević on her personal request. At the same session the Government appointed Ms Jelena Davidović as acting Director General. At the session held on 28th December 2022, the Government adopted the Decision on the re-appointment of Ms Jelena Davidović as Director General of Directorate for Finance and Contraction of EU Assistance Fund.

Deputy NAO informed European Commission and Audit Authority on this personal change on 3rd February 2023. (Letter N^o: 05-908/23-60/1)

– **Head of CBC Body**

In accordance with the new Rulebook on the internal organisation and systematization of the Ministry of European Affairs Ms Nada Pejović has been appointed as Head of Department for bilateral cross-border programmes/Head of CBC Body within Ministry of European Affairs. She replaced Mr Miodrag Račeta by the Government Decision adopted on 31st August 2022.

Deputy NAO informed European Commission and Audit Authority on this personal change on 3rd February 2023. (Letter N°: 05-908/23-60/1)

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

During 2022, the following changes occurred in the Kosovo Operating structure:

– Head of Operating Structure and Head of CBC Body

According to the Decision of Minister of Ministry of Local Government Administration from 11th January 2022 Ms Venera Cerkini was appointed as Acting Secretary General in the Ministry of Local Government Administration and Head of Operating Structure of Kosovo. Mr Trim Berisha, who previously performed the function of Head of OS was appointed as a new Head of CBC Body of Kosovo.

Audit Authority was informed about these changes by e-mail sent by Montenegrin OS on 20th July 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

The changes that occurred in MCSS in 2022 have been communicated to the European Commission and the Audit Authority. Changes have been assessed by Audit Authority and we can confirm their compliance with Article 7 of Commission Implementing Regulation (EU) N° 447/2014.

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

3. CHANGES TO THE AUDIT STRATEGY

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

The Audit Strategy for IPA II 2014-2020 CBC Programme "Montenegro – Kosovo" was prepared and submitted to the European Commission with a copy to the NAO in November 2021. The Audit Strategy was prepared on a tri-annual basis for period 2022-2024 following the model in Annex G of Montenegrin Framework Agreement and approved by Deputy Auditor General after having obtained the opinion of GoA members.

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

4. SYSTEMS AUDITS

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

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

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

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

Audit period	1. Programme (CCI and title)	2. Audit Body	3. Audited Body(ies)	4. Date of the audit	5. Scope of the audit	6. Principal findings and conclusions	7. Problems of systemic character and measures taken	8. Estimated financial impact (if applicable)	9. State of follow-up (closed /or not)
01.01.2022.-31.12.2022.	IPA II 2014-2020 Cross-Border Cooperation Programme Montenegro-Kosovo (C (2014) 9307) <i>CRIS N°:</i> 2014/037-592 2015/038-161 2016/038-182 2017/038-183 2018/041-472 2019/041-474 2020/041-475	Audit Authority of Montenegro + Goa members	1.CA/CFCU 2.Control Body + Follow up in all bodies within MCSS of the IPA II 2014-2020 CBC Programme Montenegro-Kosovo	July-December 2022	-3(a) Selection and development of control activities - CA/CFCU, CB; - Follow up of open findings from previous audits - all bodies within MCSS	<u><i>Findings related to Montenegro</i></u> 1. Failure to meet prescribed deadlines <u><i>Findings related to Kosovo</i></u> No findings identified by Kosovo GoA members related to Kosovo OS Bodies <u><i>Audit conclusion:</i></u> Category 2 - Works, but some improvements are needed. For more details please refer to the point 4.4 of this report	-	-	Finding is OPEN

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

Contracting Authority (CA):

- 3(a) Selection and development of control activities

Control Body (KOS CB)

- 3(a) Selection and development of control activities

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

The system audit encompassed the period from 1st October 2021 to 31st July 2022. The audit was performed in the period from 11th July 2022 until 8th December 2022. The Final Audit Report was issued and submitted to Deputy National Authorising Officer, Deputy National IPA Coordinator of Montenegro, National IPA Coordinator of Kosovo, Head of Operating Structure in Montenegro and Head of Operating Structure in Kosovo on 26th December 2022.

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

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

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

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

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

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

- Contracting Authority (CA) and
- Control Body (CB).

The ICF area which was under the scope of audit according to risk assessment was ICF area 3. Control activities.

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

- 3(a) Selection and development of control activities –CA, CB;

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

The outcome of the audit process is summarized in the Final system audit report that provides findings and recommendations which were identified during the audit process in each body of Management Structure and Operating structures. Findings were categorized according to level of importance to major, intermediate and minor findings. During this audit engagement we identified in total 2 findings related to Montenegrin bodies: 1 major and 1 minor. No findings were identified in respect to Kosovo bodies.

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

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

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

IPA Body Audit area	CA/CFCU	CB KOS	TOTAL
3(a)	2	2	2
TOTAL	2	2	2

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

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

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

Further below there is a description of the most important findings (major and intermediate) and recommendations provided for correcting the findings detected.

4.4.1 Principal Findings and recommendations related to MCSS

➤ **Finding N° 1: Failure to meet prescribed deadlines**

ICF requirement:

3. Control activities

(a) Selection and development of control activities

Level of priority: Major

Body/-ies concerned by the finding: CFCU

According to the MoP (version 2.0) Chapter Financial Management and Accounting upon receipt of the Financial report and Payment request issued by the grant beneficiary, IA shall perform relevant checks with regard to the legitimacy and accuracy of the payment request and submitted supporting documents and conformity with the contract provisions.

Depending on the type of contracts and payments the IA has a period of maximum 30/58 calendar days from the receipt Interim/Final Financial Report (Narrative and Financial Part) to complete, send and enter into the SAP Written Approval Letter.

According to Grant Contract General Conditions, point 15.4 Payment deadlines "... Further pre-financing payments and payments of the balance shall be made within 60 days of receipt of the payment request by the Contracting Authority.

However, further pre-financing payments and payments of the balance shall be made within 90 days of receipt of the payment request by the Contracting Authority in any of the following cases:

- a) one Beneficiary with affiliated entity(ies);
- b) if more than one Beneficiary is party to this Contract;
- c) if the Commission is not the Contracting Authority
- d) for grants exceeding EUR 5 000 000

The payment request is deemed accepted if there is no written reply by the Contracting Authority within the deadlines set above."

According to Grant Contract General Conditions, point 15.5 Suspension of the period for payments " Without prejudice to Article 12, the time-limits for payments may be suspended by notifying the Coordinator that:

- a) the amount indicated in its request of payments is not due, or;
- b) proper supporting documents have not been supplied, or;
- c) clarifications, modifications or additional information to the narrative or financial reports are needed, or

... The suspension of the time-limits for payments starts when the above notification is sent to the Coordinator. The time-limit starts running again on the date on which a correctly formulated request for payment is recorded. The Coordinator shall provide any requested information, clarification or document within 30 days of the request..."

Reviewing the procedures related to the approval costs and payment executions, the Audit Authority auditors concluded that:

1. Deadlines prescribed in the Manual of Procedures related to the performance of management verification and issuance of Written approval letter (interim and final report) had not been respected.
2. Deadlines prescribed in the PRAG rules, General Conditions of the Contracts related to the execution of the payments (interim request) to the grant beneficiaries had not been respected.

- *Namely, Audit Authority auditors reviewed procedures related to the approval of interim/final report and reported costs for six (6) contracts (CPOS-FROS, Checklists for verification of the expenditure for Interim/Final Report) and concluded that Written Approval Letters for six (6) contracts had been sent and made after defined deadlines as follows:*

1. For CFCU/MNE/148

Interim Financial Report was archived on 22nd October 2021, deadline for entry into the accounting system Written Approval Letter was **21st November 2021**.

Bearing in mind that:

1. CFCU sent Request for additional information on 28th December 2021 (deadline for submission of documents was 24th January), which is after the deadline for entry into accounting system, **new deadline cannot be taken into consideration.**
2. CFCU sent Request for additional information on 14th February 2022 (deadline for submission of documents was 21st February 2022), which is after the deadline for entry into accounting system, **new deadline cannot be taken into consideration.**

Written Approval Letter was sent to the Grant Beneficiary on 9th June 2022 and entered into accounting system on 31st March 2022 and 9th June 2022.

2. For CFCU/MNE/149

Interim Financial Report was archived on 2nd December 2021, deadline for entry into the accounting system Written Approval Letter was **4th January 2022**.

Bearing in mind that:

1. CFCU sent Request for additional information and suspended Contract on 17th January 2022 (deadline for submission of documents was 25th January 2022), which is after the deadline for entry into accounting system, **new deadline cannot be taken into consideration.**
2. CFCU sent Request for additional information on 1st February 2022 (deadline for submission of documents was 7th February 2022), which is after the deadline for entry into accounting system, **new deadline cannot be taken into consideration.**

Written Approval Letter was sent to the Grant Beneficiary on 16th March 2022 and entered into accounting system on 16th March 2022.

3. For CFCU/MNE/152

First Interim Financial Report was archived on 3rd November 2021, deadline for entry into the accounting system Written Approval Letter was **3rd December 2021**.

Bearing in mind that:

1. CFCU sent Request for additional information and suspended Contract on 29th November 2021 (deadline for submission of documents was 13th December 2021), **new deadline for entry into accounting system was 17th December 2021.**
2. CFCU sent Request for additional information and suspended Contract on 26th January 2022 (deadline for submission of documents was 3rd February 2022), which is after the deadline for entry into accounting system, **new deadline cannot be taken into consideration.**

Written Approval Letter was sent to the Grant Beneficiary on 15th April 2022 and entered into accounting system on 15th April 2022.

Second Interim Financial Report was archived on 8th April 2022, deadline for entry into the accounting system Written Approval Letter was **8th May 2022**.

Bearing in mind that:

1. CFCU sent Request for additional information and suspended Contract on 9th May 2022 (deadline for submission of documents was 18th May 2022), which is after the deadline for entry into accounting system, **new deadline cannot be taken into consideration.**
2. CFCU sent Request for additional information and suspended Contract on 8th June 2022 (deadline for submission of documents was 13th June 2022), which is after the deadline for entry into accounting system, **new deadline cannot be taken into consideration.**

Written Approval Letter was sent to the Grant Beneficiary on 30th June 2022.

However, the Correction of the Written Approval was made and Corrected Written Approval was sent to the Grant Beneficiary on 19th August 2022, after the period of the audit.

4. For CFCU/MNE/151

First Interim Financial Report was archived on 11th November 2021, deadline for entry into the accounting system Written Approval Letter was **11th December 2021**.

Bearing in mind that:

1. CFCU sent Request for additional information and suspended Contract on 13th December 2021 (deadline for submission of documents was 20th December 2021), which is after the deadline for entry into accounting system, **new deadline cannot be taken into consideration.**
2. CFCU sent Request for additional information and suspended Contract on 28th January 2022 (deadline for submission of documents was 3rd February 2022), which is after the deadline for entry into accounting system, **new deadline cannot be taken into consideration.**

Written Approval Letter was sent to the Grant Beneficiary on 21st March 2022 and entered into accounting system on 21st March 2022.

Second Interim Financial Report was archived on 7th June 2022, deadline for entry into the accounting system Written Approval Letter was **7th July 2022**.

Bearing in mind that:

1. CFCU sent Request for additional information and suspended Contract on 20th June 2022 (deadline for submission of documents was 27th June 2022), **new deadline for entry into accounting system was 14th July 2022.**

Written Approval Letter was sent to the Grant Beneficiary on 24th August 2022.

5. For CFCU/MNE/068

Final Financial Report was archived on 3rd September 2021, deadline for entry into the accounting system Written Approval Letter was 31st October 2021.

Bearing in mind that:

1. CFCU sent Request for additional information and suspended Contract on 29th September 2021 (deadline for submission of documents was 18th October 2021), new deadline for entry into accounting system was 19th November 2021.
2. CFCU sent Request for additional information and suspended Contract on 9th November 2021 (deadline for submission of documents was 15th November 2021), **new deadline for entry into accounting system was 26th November 2021.**

Written Approval Letter was sent to the Grant Beneficiary on 24th February 2022.

Correction of the Written Approval Letter which was made due to remarks of Lead Beneficiary on deducted costs, was sent to the Grant Beneficiary on 10th March 2022 and entered into accounting system on 10th March 2022.

6. For CFCU/MNE/082

Final Financial Report was archived on 22nd September 2021, deadline for entry into the accounting system Written Approval Letter was 19th November 2021.

Bearing in mind that:

1. CFCU sent Request for additional information and suspended Contract on 29th October 2021 (deadline for submission of documents was 15th November 2021), new deadline for entry into accounting system was 6th December 2021.
2. CFCU sent Request for additional information and suspended Contract on 21st December 2021 (deadline for submission of documents was 23rd December 2021), which is after the deadline for entry into accounting system, **new deadline cannot be taken into consideration.**

Written Approval Letter was sent to the Grant Beneficiary on 30th December 2021 and entered into accounting system on 30th December 2021.

- *Auditors reviewed documentation related to the approval of interim payment for two (2) contracts and final payment for two (2) contracts (Checklist for Interim/ Final payment,*

Request for Funds Checklists and SAP printout) and concluded that Payment executions for three (3) contracts had not been made in accordance with the defined deadlines as follows:

1. For CFCU/MNE/148

Financial Report was archived on 22nd October 2021.

1. Contract was suspended for 27 days (First Request for additional information was submitted on 28th December 2021 and deadline for submission of the documents was 24th January 2022).
2. Contract was suspended for 7 days (Second Request for additional information was submitted on 14th February 2022 and deadline for submission of the documents was 21st February 2022).

Bearing in mind that:

* Request for Interim Payment was archived on 4th October 2021,

* 27 days of the suspension (Second request for additional information was not taken into consideration, because its after the deadline for new execution for payment)

Deadline for executed the interim payment and entered into the accounting system was 27th January 2022. However, Payment order was made on 18th August 2022.

Additionally, by reviewing the documentation, AA auditors noticed that Narrative report was archived in the Ministry of Finance and Social Welfare archive on 14th December 2021, Financial report was archived on 22nd October 2021 and Payment request from Grant Beneficiary was archived on 4th October 2021, even though they have been delivered at the same date by the Beneficiary.

2. For CFCU/MNE/151

First Financial Report was archived on 11th November 2021.

1. Contract was suspended for 7 days (Request for additional information was submitted on 13th December 2021 and deadline for submission of the documents was 20th December 2021).
2. Contract was suspended for 6 days (Request for additional information was submitted on 28th January 2022 and deadline for submission of the documents was 3rd February 2022).

Bearing in mind that:

* Request for Interim Payment was archived on 11th November 2021,

* 13 days of the suspension

Deadline for executed of the payment and entered into the accounting system was 21st February 2022. However, payment execution was made on 20th June 2022.

3. For CFCU/MNE/082

Final Financial Report was archived on 22nd September 2021.

1. Contract was suspended for 17 days (Request for additional information was submitted on 29th October 2021 and deadline for submission of the documents was 15th November 2021).
2. Contract was suspended for 2 days (Request for additional information was submitted on 21st December 2021 and deadline for submission of the documents was 23rd December 2021).

Bearing in mind that:

* Request for final Payment was archived on 22nd September 2021,

* 19 days of the suspension

Deadline for executed the final payment and entered into the accounting system was 10th January 2022. However, payment execution was made on 4th February 2022.

Recommendation:

The Audit Authority auditors recommend to the CFCU to:

1. Perform verification and send Written Approval Letters to the grant beneficiaries in accordance with the prescribed deadline in the Manual of Procedures.
2. Make Payment executions in accordance with the deadline prescribed in the PRAG rules, General Conditions of the Contracts and Manual of Procedures.
3. Archive Narrative and Financial Report, as well as Payment Request from Grant Beneficiary (where applicable), at the same date at the Ministry of Finance archive.

4. Give deadline to beneficiary for submitting the additional documentation and clarifications which is realistic, bearing in mind that the beneficiary already has one month from the period of the implementation for submitting the interim reports and three months after the implementation period for final reports. All documents submitted by beneficiaries after the deadline should be considered unacceptable.

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

Not applicable.

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

Not applicable.

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

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

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

According to the results of the system audit conducted during 2022 MCSS established for implementation of the IPA II 2014-2020 CBC Programme "Montenegro-Kosovo" has been classified in **Category 2** that is it **'works, but some improvements are needed'**. Therefore, the level of assurance obtained from the system is average.

5. AUDITS OF SAMPLES OF TRANSACTIONS

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

The audit of sample of transaction in the framework of IPA II 2014-2020 CBC Programme "Montenegro-Kosovo" was conducted by the Audit Authority of Montenegro according to Audit Strategy 2022-2024. In conducting the audit AA was assisted by the Group of Auditors composed of representatives of the Audit Authority of Montenegro who performed the audit in territory of Montenegro and representatives of the Central Harmonization Unit for Internal Audit (CHU-IA) within Ministry of Finance of Kosovo who performed the audit in territory of Kosovo in accordance with Rules of procedures of Group of Auditors.

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

The sampling was performed by the Audit Authority in accordance with the method described in the Audit Strategy 2022-2024 adopted for the Programme and in accordance with international auditing standards and having regard to the EGESIF 16-0014-01 Guidance on sampling methods for audit authorities.

Bearing in mind small number of operations in accounting year 2022 the sample was selected applying non-statistical sampling method by random selection of items. Sample size has been determined taking

into account AA overall assessment of the MCSS and EGESIF 16-0014-01 guidance regarding minimal sample size when applying non-statistical sampling.

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

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

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

The audit of operations was performed on the sample of operations for which the expenditures were declared to the European Commission during 2022. One Declaration of Expenditure was sent to the European Commission regarding CBC Action Programme “Montenegro-Kosovo” for the year 2016 in total amount of 483.972,06 € (411.322,93€ EU part and 72.649,13€ private co-financing) and one Declaration of Expenditure regarding Action Programme for the year 2017 in total amount of 304.698,73€ (258.993,92€ EU part and 45.704,81€ private co-financing). As for financial allocation for 2014 and 2015 no expenditures were declared during the year 2022 while for allocation for 2018, 2019 and 2020 contracts were awarded in December 2022.

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

Since the MCSS is the same for both Action Programmes (for the years 2016 and 2017), populations of both financial allocations considered for drawing up the sample were grouped in one population which consisted of 7 operations including 788.670,79€ of total cost recognised amounts included in CA accounting records and declared to the Commission in the financial year 2022. Population is given in the table below:

Contract	Name of the Contract	Contractor	Contracted			Pre-financing paid	Open pre-financing	Cost recognised		
			EU part	Private co-financing	Total			EU part	Private co-financing	Total
FA 2016 CRIS 2016 (2016/038-182)										
CFCU/MNE/147	Creating employment in agriculture	Capital City of Podgorica	259.239,39	22.403,45	281.642,84	219.208,59	141.162,43	78.046,16	13.772,88	91.819,04
CFCU/MNE/148	PRAXIS	Caritas Kosova	280.362,51	49.553,37	329.915,88	252.326,26	154.385,07	97.941,19	17.310,86	115.252,05
CFCU/MNE/149	CARES 2	FORS Montenegro	299.990,00	53.056,50	353.046,50	230.260,17	171.975,18	58.284,99	10.308,33	68.593,32
CFCU/MNE/152	Culture heritage - Treasure of CB region	Municipality of Peja	357.884,31	63.182,00	421.066,31	322.095,88	145.045,29	177.050,59	31.257,06	208.307,65
Total			1.197.476,21	188.195,32	1.385.671,53	1.023.890,90	612.567,97	411.322,93	72.649,13	483.972,06
FA 2017 CRIS 2017 (217/038-183)										
CFCU/MNE/147	Creating employment in agriculture	Capital City of Podgorica	28.347,24	28.347,24	56.694,48	0,00	0,00	0,00	0,00	0,00
CFCU/MNE/150	Tourism hubs for better tourism offer	Municipality of Andrijevisa	392.731,20	69.305,50	462.036,70	196.306,48	166.772,49	29.533,99	5.211,88	34.745,87
CFCU/MNE/151	Transhumance - new tourism offer of KS-MN	Initiative for Agricultural Development of Kosovo	395.599,79	69.811,73	465.411,52	346.066,74	116.606,81	229.459,93	40.492,93	269.952,86
Total			816.678,23	167.464,47	984.142,70	542.373,22	283.379,30	258.993,92	45.704,81	304.698,73
TOTAL FA 2016 and FA 2017			2.014.154,44	355.659,79	2.369.814,23	1.566.264,12	895.947,27	670.316,85	118.353,94	788.670,79

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

Not applicable.

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

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

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

One single sample representative of the grouped population (Programme for 2016 and 2017) has been selected but applying stratification per programme. One stratum includes operations within Action Programme 2016 and another stratum operation within Action Programme 2017.

Sample size has been first calculated for the whole group and subsequently allocated between two strata. Bearing in mind small number of operations (7 operations) in accounting year 2022 the sample was selected applying non-statistical sampling method by random selection of items. Sample has been determined in size of 2 operations taking into account AA overall assessment of the MCSS, Commission statement regarding minimal sample size when applying non-statistical sampling, and risks identified in previous audit engagements.

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

Two (2) operations in overall amount of 478.260,51€ have been selected in the sample which represents 28,57% of the total number of units/operations (population) and 60,64% of total amount of declared costs. One operation has been selected from first stratum (Action Programme 2016) and one operation from second stratum (Action Programme 2017) using equal probability selection. Taking into account the level of assurance provided by the system audits and risks identified, the AA considers that the drawn sample is sufficient to draw conclusions and an audit opinion.

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

<i>CBC Action Programme “Montenegro-Kosovo” for the year 2016 and 2017</i>		
1	Amount of declared expenditures	788.670,79 €
2	No of units in population	7
3	Value of the sample tested	478.260,51 €
4	Value of the sample tested in %	60,64%
5	No of units in sample	2
6	No of units in sample in %	28,57%
7	Materiality 2% of expenditure declared in reference period (tolerable misstatement) (1*2%)	15.773,42 €
8	Error amount determined by the audit	126,23 €
9	Sample error rate ((8/3)*100)	0,026%
10	Projected random error (1*9)	205,05 €
11	Total projected error rate ((10/1)*100)%	0,026%

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

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

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

Operation/Contract	Total expenditure declared (EUR)	Union contribution (EUR)	Private co-financing (EUR)	Expenditure audited (EUR)	Audited / Declared expenditure (%)
1 st Stratum – Action Programme 2016					
CFCU/MNE/152 - Culture heritage - Treasure of cross border region	208.307,65	177.050,59	31.257,06	208.307,65	100%
2 nd Stratum – Action Programme 2017					
CFCU/MNE/151 - Transhumance - new tourism offer of Kosovo and Montenegro	269.952,86	229.459,93	40.492,93	269.952,86	100%
TOTAL	478.260,51	406.510,52	71.749,99	478.260,51	100%

Following bodies were covered during the audit:

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

Audit Authority also carried out on-the-spot checks at the premises of Grant Beneficiaries, i.e. Municipality of Gusinje from Contract CFCU/MNE/152 and Regional Development Agency for Bjelasica, Komovi and Prokletije from Contract CFCU/MNE/151.

The Kosovo GoA members carried out on the spot check at the premises of Kosovo project partners, i.e. Municipality of Peja from Contract CFCU/MNE/152 and Initiative for Agricultural Development of Kosovo from Contract CFCU/MNE/151.

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

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

System findings:

➤ Finding N^o 1: Un-respected procedures related to the retention of documents

Responsible body: IA/CFCU

According to the Framework Agreement, Article 49 Retention of documents, it is stipulated that “*The IPA II beneficiary shall retain for six years from the final date for operational implementation of a financing agreement, all documents relevant for the procurement and grant award procedures, contracts, addendum, relevant correspondence and all relevant documents relating to payments and recoveries.*

The time period referred to in the first subparagraph shall be interrupted either in case of legal proceedings or by a duly justified request of the Commission.”

Additionally, in the Manual of Procedures, Chapter Procedural and administrative affairs point 3.8 Archiving and storing of the documentation it is stipulated that” *Specific annexes (annexes and documentations from the MoP chapters), regulations, decrees, agreements, providing a non-exhaustive*

list of document's files which should be kept by the respective IPA Body. The annexes and documentation should be kept in accordance with Article 49 of the IPA II Framework Agreement. All IPA OS Bodies are obliged to archive all annexes and documentation in electronic format. Additionally, in that respect IPA OS Bodies ensure adequate audit trails."

During the conduct of audit (administrative as well as on-the-spot check), Audit Authority auditors concluded that CFCU File Folder for Contract CFCU/MNE/151 (Hard copy documents and electronic version of documents) has not been properly organised.

It is evident that most of the CFCU documentation (audit trail related to the GB documents, supporting documentation related to the financial and narrative reports) is missing, have not been archived in hard copy and electronically, which decreases the level of documentation protection.

During OTSC Audit Authority auditors were not convinced of the existence of an audit trail.

Level of priority: *Intermediate*

Recommendation:

In order to provide an audit trail, we recommend to the CFCU to check all Contracts' documentation/evidence in respect to the IPA CBC Programme 2014-2020 "Montenegro-Kosovo" and request missing documentation/evidence from Grant Beneficiaries.

➤ **Finding N° 2: Deficiencies in implementation of On-the-spot verification by CFCU**

Responsible body: *IA/CFCU*

Based on the submitted documents (On-the-spot Verification Report and Checklist) during the audit, it is evident that CFCU conducted on-the-spot verification to the Grant Beneficiary "Regional Development Agency of Bjelasica, Komovi and Prokletije – RDA", Co-applicant of the project "Transhumance – new tourism offer of Kosovo and Montenegro" for Contract CFCU/MNE/151.

Namely, on-the-spot verification was conducted on 17th June 2022 in the premises of the RDA by Contract Manager and Financial Controller.

Based on the submitted On-the-spot Verification Report and Checklist as well as interview with CFCU staff Audit Authority auditors concluded that:

1. RDA project documents (procurement as well as financial documentation) have been subject of the desk review by CFCU staff and
2. Existence of the procured equipment and supplies and its availability and usage at the envisaged project locations (large and small solar system, katon signs: info boards, signalisation and viewpoint signs) have not been checked during OTSC, even though in the period of conducted on-the-spot verification equipment has been delivered to the Final Beneficiaries.

There is no proof that CFCU staff are convinced of the existence of the equipment.

Level of priority: *Intermediate*

Recommendation:

We recommend to the CFCU to check/verify existence of the project equipment through on-the-spot verification in the future period for all procurement to the Grant Beneficiaries as well as Final Beneficiaries.

➤ **Finding N° 3: Book keeping entries of purchased equipment and supplies**

Responsible body: *Grant beneficiary - Municipality of Gusinje*

During the on-the-spot check which is performed at the premises of grant beneficiary Municipality of Gusinje and through interview with the representatives of grant beneficiary, auditors concluded that equipment which was purchased through grant contract CFCU/MNE/152 was not entered in accounting system of Municipality of Gusinje and inventory numbers were not assigned.

The following equipment has not been entered in the fixed assets book and inventory numbers were not assigned:

- equipment purchased within Tender No. CFCU-MNE-152/GM07, Contract No. 01/3466, Contract title: "Procurement of the computer, printer, projector with screen interactive display for the project Cultural Heritage - Treasure of cross border region",
- equipment purchased within Tender No. CFCU-MNE-152/GM04, Contract No. 01/1914, Contract title: "Procurement of the project vehicle for the project Cultural Heritage - Treasure of cross border region",
- equipment purchased within Tender No. CFCU-MNE-152/GM06, Contract No. 01/3434, Contract title: "Procurement of the audio and tour guides and installation of the equipment for the project Cultural Heritage – Treasure of cross border region".

Level of priority: *Intermediate*

Recommendation:

We recommend to grant beneficiary Municipality of Gusinje to ensure book keeping entries of the purchased equipment and to assign inventory numbers, in accordance with Law on state property (OG MN No. 021/09; 040/11), Law on accounting in the public sector (OG MN No. 066/19) and other relevant national regulations.

Transaction findings:

- **Finding N° 1: Ineligible expenditure related to the Local office costs (Vehicle costs MNE)**

Project name and number: *"Culture heritage - Treasure of cross border region",*
N°: CFCU/MNE/152

Project partner: *Municipality of Gusinje*

Finding: Reviewing the First Progress Financial Report for the contract CFCU/MNE/152 it has been determined that controllers approved expenditures for the budget line 4. Local office (4.1.1 Vehicle costs MNE), Invoice No. 6357 – Alliance doo in amount of 88,15€ without taxes. This invoice was paid to the supplier on 09/06/2021. The costs were related to the mandatory equipment with box and rubber floor mats for vehicle.

According to Guidelines on Financial Reporting, the local office budget line may include cost items such as:

- Vehicle costs (registration, insurance, maintenance...) to the ratio of project based kilometres/total kilometres travelled by that car during the project life cycle.

According to the project budget this budget line is intended for maintenance, regular service and registration costs for a new vehicle.

Auditors concluded that above mentioned costs do not belong to the type of costs allowed by this budget line. Having in mind this conclusion, the amount of **88,15€** is ineligible.

Reviewing the Second Progress Financial Report for the contract CFCU/MNE/152 it has been determined that controllers approved expenditures for the budget line 4. Local office (4.1.1 Vehicle costs MNE), Invoice No. NŽ-15679/2021 – UNIQA osiguranje in amount of 364,92€ including taxes (335,10€ + 29,82€ taxes). This Invoice was paid to the supplier on 29/10/2021. The cost was related to insurance of the vehicle.

According to Special Conditions of the Contract, Article 7, point 7.1.2:

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

Auditors concluded that paid tax in amount of **29,82€** is ineligible.

Total amount of ineligible cost is $88,15€ + 29,82€ = 117,97€$.

Additionally, corresponding indirect costs (according to Grant Contract General Conditions, article 14.7 maximum 7% of eligibility costs) are ineligible in the amount of **8,26€**.

Total ineligible expenditure: **126,23€** (EU part: 107,28€; other sources: 18,95€).

Level of priority: Major

Recommendation:

We recommend recovery of identified ineligible expenditure in the overall amount of 126,23€.

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

During the audit of operation in 2022 we identified one finding with financial impact in total amount of 126,23 € (0,026%). As this error is treated as random error, it is projected (extrapolated) to the whole population (788.670,79 €), and the projected (extrapolated) error is 205,05 €.

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

Based on the audit work performed we have obtained reasonable assurance that the expenditure declared in the amount of 788.670,79 € in the period 01/01/2022 – 31/12/2022 is in all material aspects, legal and regular, except expenditures described in the point 5.8. Total projected error on the overall population is 205,05 € (0,026%) and it is below the materiality threshold of 15.773,42 € (2%).

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

During the audit of operations one (1) error in the total amount of 126,23 € (EU part: 107,28€; other sources: 18,95€) was identified.

However, Management structure/Operating structure did not implement financial correction in total amount of ineligible expenditures before submitting financial statements to the Commission. Namely, annual accounts for 2022 for CBC Programme “Montenegro-Kosovo” for the year 2016 have been corrected for the amounts of 88,15 € (EU part: 74,93 €; other sources: 13,22 €) of ineligible costs determined during the audit of operation. The remaining amount of 38,08 € (EU part: 32,36 €; other sources: 5,71 €) was not included in AFR for 2022 i.e. cost recognised and open-pre financing have not been corrected for that amount.

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

Residual total error rate after above-mentioned correction is 0,015 %. Implemented correction has no impact on the audit opinion.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

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

Based on the audit work performed we have obtained reasonable assurance that the expenditure declared in the amount of 788.670,79 € in the period 01/01/2022 – 31/12/2022 is in all material aspects, legal and regular, except expenditures described in the point 5.8.

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

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

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

The audit of the annual financial reports or statements/annual account in the framework of IPA II 2014-2020 CBC Programme "Montenegro-Kosovo" was conducted by the Audit Authority of Montenegro according to Audit Strategy 2022-2024.

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

Audit of accounts was carried out in compliance with the Audit Authority Manual of procedures, Programme Audit Strategy 2022-2024, Framework Agreement and relevant Financing Agreements.

The NAO submitted to the Commission, in accordance with Article 59(2) of the Framework Agreement, the Annual Financial Reports for Action and CBC Programmes for Montenegro, managed under indirect management on 15th February 2023 including the CBC Programmes “Montenegro-Kosovo” for years 2014-2020.

The amounts declared in the Annual Financial Report for 2022 are presented in the table below:

Programme Reference	Financing Agreement contract number	Total Amount Disbursed		Total Costs Recognised		Total Open Pre-financing		Bank Balances (EU contribution)	Forecast disbursements
		EU contribution	Other sources	EU contribution	Other sources	EU contribution	Other sources		
CBC MNE-KOS 2014	2014/037-592	829.805,08	0,00	829.805,08	146.584,81	0,00	0,00	3.358,64	0,00
CBC MNE-KOS 2015	2015/038-161	1.063.957,26	0,00	1.042.326,17	186.564,86	21.631,09	0,00	122.872,40	0,00
CBC MNE-KOS 2016	2016/038-182	1.023.890,90	0,00	411.248,01	72.635,90	612.642,89	0,00	173.585,31	176.109,10
CBC MNE-KOS 2017	2017/038-183	542.373,22	0,00	322.779,35	56.961,06	219.593,87	0,00	274.305,01	297.626,78
CBC MNE-KOS 2018	2018/041-472	0,00	0,00	0,00	0,00	0,00	0,00	960.000,00	837.235,21
CBC MNE-KOS 2019	2019/041-474	0,00	0,00	0,00	0,00	0,00	0,00	960.000,00	641.178,10
CBC MNE-KOS 2020	2020/041-475	0,00	0,00	0,00	0,00	0,00	0,00	864.000,00	676.492,02

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

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

- the total amounts submitted in the Annual Financial Report (programme budget, contracted amounts, amounts disbursed, total costs recognised, amounts of open pre-financing and the relevant percentages based on appropriate total amounts submitted to the Commission in accordance with the Annex IV of the Financing Agreements, as well as recovery context information on ineligible cost and recoveries) correspond to the amounts entered in the accounting system of National Fund Division (NF) and Implementing Agency/CFCU;
- the total amounts submitted in the Annual Financial Report correspond to the amounts in the electronic database for each contract, in relation to the contract reference, contract value including any amendments, contract signature date, contract implementation start and end date, amount total paid by contract, amount related to total pre-financing paid and pre-financing cleared, total costs recognized, amount of recoveries under the contract;
- the bank account statement balances and the bank confirmation letter correspond 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 National Fund Division (NF) and Implementing Agency (CFCU) is performed;
- total amounts of recoveries correspond to supporting documents for recoveries.

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

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

See reconciliation table below:

Programme/Grant beneficiary					NF Accounting System													IA/CFCU							
Name of allocation	Current contract value/ EU part	Current contract value/ Other sources	Source	Payment Request by Grant beneficiary	RfF from IA	Record in NF Acc system	Bridge Financing	Record in NF Acc system	RfFs to EC	Record in NF Acc system	Bank statement MF-NF-IPA Acc	Record in NF Acc system	Bank statement State Treasury Main Acc	Record in NF Acc system	Financial Forecast	Cost recognised EU part	Calculation by AA	Payment Order	Bank statement	Record in CFCU Acc system	Pre-financing/Final payment paid	Pre-financing/ Final payment cleared	Open pre-financing	Calculation by AA	Recovery
CBC MNE-KSV 2014	833,163.72	147,177.77	Pre-financing	829,805.08	829,805.08	829,805.08	13,209.61	13,209.61	829,805.08	829,805.08	829,805.08	829,805.08	829,805.08	829,805.08	0.00	829,805.08	829,805.08	829,805.08	829,805.08	829,805.08	829,805.08	829,805.08	0.00	0.00	0.00
			Further pre-financing Final payment																						
CBC MNE-KSV 2015	1,186,829.66	212,209.06	Pre-financing	1,063,957.26	1,063,957.26	1,063,957.26	62,343.56	62,343.56	1,063,957.26	1,063,957.26	1,063,957.26	1,063,957.26	1,063,957.26	1,063,957.26	0.00	1,042,326.17	1,042,326.17	1,063,957.26	1,063,957.26	1,063,957.26	1,063,957.26	1,042,326.17	21,631.09	21,631.09	0.00
			Further pre-financing Final payment																						
CBC MNE-KSV 2016	1,197,476.21	188,195.32	Pre-financing Further pre-financing	1,023,890.90	1,023,890.90	1,023,890.90	0.00	0.00	1,023,890.90	1,023,890.90	1,023,890.90	1,023,890.90	1,023,890.90	1,023,890.90	176,109.10	411,248.01	411,215.65	917,678.17	917,678.17	917,678.17	1,023,890.90	411,248.01	612,642.89	612,675.25	32.36
CBC MNE-KSV 2017	816,678.23	167,464.47	Pre-financing Further pre-financing	542,373.22	542,373.22	542,373.22	0.00	0.00	542,373.22	542,373.22	542,373.22	542,373.22	542,373.22	542,373.22	297,626.98	322,779.35	322,779.35	542,373.22	542,373.22	542,373.22	542,373.22	322,779.35	219,593.87	219,593.87	0.00
CBC MNE-KSV 2018	1,200,000.00	274,436.06	N/A	N/A	282,085.88	0.00	0.00	0.00	960,000.00	960,000.00	960,000.00	960,000.00	960,000.00	960,000.00	837,235.21	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
CBC MNE-KSV 2019	1,200,000.00	223,905.00	N/A	N/A	0.00	0.00	0.00	0.00	960,000.00	960,000.00	960,000.00	960,000.00	960,000.00	960,000.00	641,178.10	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
CBC MNE-KSV 2020	805,667.25	165,389.20	N/A	N/A	0.00	0.00	0.00	0.00	864,000.00	864,000.00	864,000.00	864,000.00	864,000.00	864,000.00	676,492.02	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

CBC MNE-KSV 2016* 32,36 € is total amount of EU part expenditures which was not included in the AFR for 2022

During the audit, no findings which have an influence on the completeness, accuracy and veracity of the amount reported in annual accounts have been identified for CBC Programme MNE-KSV for the years 2014, 2015, 2017, 2018, 2019 and 2020.

As for CBC programme MNE-KSV for the year 2016, we have identified and documented the following audit finding:

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

Level of priority: Major

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

Reviewing the Annual Financial Report for 2022 it has been determined that part of financial correction identified during Audit of Operation has not been taken into account which is not in accordance with the Framework Agreement, Article 36 - Examination and acceptance of accounts procedures, paragraph 2 "The examination and acceptance of accounts procedure shall consist of:

...c) the analysis of the opinion sent by the audit authority on the statement of expenditure supported, where appropriate, by an audit activity report".

Namely, in the Final Audit of Operation Report N°: 3011-2-06-129, from 13th February 2023, it is concluded that costs related to the budget line 4. Local office (4.1.1 Vehicle costs MNE) and corresponding indirect costs are ineligible in total amount of 126,23€ (EU part: 107,28€; other sources: 18,95€) for CBC Programme "Montenegro-Kosovo" for the year 2016, Contract CFCU/MNE/152. The overview of the ineligible costs is given in the following table:

Contract	Invoice Number	Ineligible amount	EU part of the Ineligible amount	Indirect costs (7%)	EU part of the Indirect costs
CFCU/MNE/152 BL 4.1.1 Vehicle costs MNE	6357	88,15 €	74,92 €	6,17 €	5,24 €
	NŽ-15679/2021	29,82 €	25,34 €	2,09 €	1,78 €
Total		117,97 €	100,26 €	8,26 €	7,02 €

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

Additionally, it is evident that NF didn't take into account ineligible expenditure prescribed in the Final Audit Operation Report during issuing Annual Financial Report for 2022 in amount of **27,12€** (25,34€ (EU part of 29,82€) + 1,78€ (7% indirect costs of 25,34€)).

Further, ineligible expenditure prescribed in the Final Audit Operation Report in amount of 74,92€ (EU part of 88,15€) was included by the NF in Annual Financial Report for 2022. However, 7% of indirect costs of 74,92€ in amount of **5,24€** which was connected with this ineligible expenditure was not included in the AFR 2022.

Auditors concluded that total amount of EU part expenditures which was not included in the AFR for 2022 is **32,36€** (27,12€ + 5,24€).

Cost recognised in the Annual Financial Report for 2022 for CBC Programme "Montenegro-Kosovo" for the year 2016 is not corrected in relation to determined financial correction by Audit Authority.

Recommendation:

Audit Authority auditors recommend to the CFCU to:

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

Audit Authority auditors recommend to the NF to:

take into account ineligible expenditure prescribed in the Final Audit Operation Report during issuing Annual Financial Report. Financial correction must be included in next declaration/financial reports.

- Follow up of previous year' audit of accounts

There are no open findings from previous audits of accounts.

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

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

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

System audit has not resulted in financial corrections regarding the reference period and has not influenced the correctness of the Annual Financial Reports for 2022.

The audit of operation has resulted in financial corrections regarding the reference period. Namely, in the Final Audit of Operation Report No: 3011-2-06-129, from 13th February 2023, it is concluded that costs in total amount of 126,23€ (EU part: 107,28€; other sources: 18,95€) for CBC Programme “Montenegro-Kosovo” for the year 2016 are ineligible. Annual Financial Report (column: Cost recognised and Open pre-financing) has been corrected for the amounts of 88,15 € (EU part: 74,93 €; other sources: 13,22 €) of ineligible costs determined during the audit of operation. However, amount of 38,08 € (EU part: 32,36 €; other sources: 5,71 €) was not included in AFR for 2022 i.e. cost recognised and open-pre financing have not been corrected for that amount. Therefore, this financial correction must be included in next declaration/financial reports.

Based on the audit work performed we have obtained reasonable assurance on the completeness, accuracy and veracity of the amounts declared in the accounts submitted to the Commission for the accounting year 2022, except amounts of Cost recognised and Open pre-financing indicated in finding N°1 in the Part 6.2 of this Report related to the CBC Programme “Montenegro-Kosovo” for the year 2016. Correction which should be made is below materiality level of 2 % (9.677,68€ for Cost recognised and 12.252,86€ for Open pre-financing).

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

No problems considered to be systemic in nature were identified.

7. FOLLOW-UP OF PREVIOUS YEARS' AUDIT ACTIVITY

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

During system audit performed in 2022, Audit Authority in cooperation with Kosovo GoA members carried out follow up of implementation of recommendation related to open findings from the previous years. Results of follow up were presented in Final System audit report.

Additionally, in the period January – February 2023 we performed follow up as separate activity before issuing the AAAR and AAO. Follow up covered the findings and recommendations given during system audit performed in 2022 as well as open findings from previous years' audits. Results of follow up were presented in Audit Recommendations' Status Reports which were submitted to all IPA Bodies in Montenegro and Kosovo.

A summary of the results of the follow up of findings from previous years' system audits is shown in the tables below. There were no open findings from audit of operation.

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

Nº	Findings identified during the System audit 2017	Body	Status in February 2023	New deadline
1.	Deficiency in the MoP Written Procedures	NAOSO	<i>Not implemented</i> The difference between the chapter is evident. The changes in certain chapters have not considered compliance with other chapters to which they are reflected (Part I and Part II). Level of priority: <i>Minor</i>	3 months
2.	Inadequate backup of data and insufficient number of trainings related to IT	NF NAOSO HOS Office CBC Body IA/CFCU	<i>Partly implemented</i> Related to the HOS Office and CBC Body part of the finding related to the back-up of documents can be considered closed. Regarding CFCU, during OTSC performed within audit of operation, Audit Authority auditors were not convinced of the existence of an audit trail. Namely, it is evident that most of the CFCU documentation (audit trail related to the GB documents, supporting documentation related to the financial and narrative reports) is missing due to the cyber-attacks, have not been archived in hard copy and electronically, which decreases the level of documentation protection. Recommendation related to back up remains.	3 months

			<p>When it comes to IT trainings and raising awareness of IT security, Audit Authority auditors consider that IPA structure is aware of importance of education and trainings related to raising information security knowledge and awareness. Training Plan for 2022 was developed but partially implemented due to different reasons. For all IPA Bodies recommendation remains the same.</p> <p>Level of priority: <i>Intermediate</i></p>	
Nº	Findings identified during the System audits 2018-2020	Body	Status in February 2023	New deadline
	No open findings			
Nº	Findings identified during the System audit 2021	Body	Status in February 2023	New deadline
1.	Failure to meet prescribed deadlines	CFCU CB	<p><i>Not implemented</i></p> <p>Delays in performing verifications of expenditures by CFCU and CB and payment executions are still evident. Finding remains open. However, bearing in mind that finding relates to contracts from allocations 2014 and 2015 for which the activities have been completed, implementation of the recommendations will be monitored through Finding No. 1 from system audit 2022 (System audit report No. 3011-1-06-582 from 26th December 2022)</p> <p>Level of priority: <i>Major</i></p>	Immediately
2.	Discrepancy between approved amount in the Global Endorsement table and approved amount in the Grant Contracts Award Notice table	CFCU	<p><i>Not implemented</i></p> <p>Based on the submitted evidence – Publicity and Visibility E-mail communications, it is evident that Grant Contracts Award Notice is corrected and published on the CFCU website.</p> <p>Audit Authority auditors concluded that approved grant amount in the Grant Contract Award Notice is 282.866,30 € for Contract CFCU/MNE/148 in accordance with the Global Endorsement List. However, based on the approved/ signed Addendum N°:3 (on 31st August 2021), grant amount was corrected in accordance with the revised Budget for the Action (280.362,51€), but Grant Contract award Notice was not corrected</p>	Immediately for JTS and Immediately for CFCU after the website becomes active

			<p>according the Addendum signed.</p> <p>Bearing in mind that modification of the Grant contract has been conducted based on the fact that Grant Beneficiary decided to decrease the total cost under Budget Heading 1 – Human Resources and based on the fact that modification of the budget action have been conducted and approved as well as that allocation of support to the grant beneficiaries for grant contracts should be transparent and visible to the public (regardless of whether it is an amendment to reduce or increase the previous contracted amount of the contract), Audit Authority auditors recommend to the CFCU to:</p> <ol style="list-style-type: none"> 1. correct and re-submit to the EUD for approval Grant Contracts Award Notice taking into consideration last revised grant amount/last approved Addendum of the Contract CFCU/MNE/148 „Caritas Kosova“ from 31st August 2021. (Amount of 280.362,51€). 2. conduct activities related to the publishing of Grant Contracts Award Notice. 3. respect deadline given by Audit Authority auditors for implementation of finding. 4. coordinate publishing of the updated version of the Grant Contracts Award Notice on the JTS website. <p>Level of priority: <i>Minor</i></p>	
3.	Discrepancy between data in the Financial Report Registers and CPOS-FROS-s	CFCU	<p><i>Not implemented</i></p> <p>Based on the submitted evidence it is evident that amount of cost reported/ requested in Financial Reports Register and CPOS-FROS were not harmonised for Contract CFCU/MNE/068 (for First Progress Report) as follows:</p> <ul style="list-style-type: none"> - Requested amount in the Financial Report Register 47.801,40€ - Requested amount in the CPOS-FROS 43.613,78€ - Difference 4.187,62€ 	One month

			Audit Authority auditors recommend to the CFCU to update and align data in Financial Report Registers with data in CPOS-FROS-s. Level of priority: <i>Minor</i>	
4.	Technical errors observed in process of control and supervision of grant beneficiaries financial reports and payment requests	CFCU	<i>Partly implemented</i> It was determined that FC1 and FC2 started filling out Checklists manually in hard copy. Taking into consideration above-mentioned part of finding related to the filling out of Checklists by FC1 and FC2 can be considered closed. It is evident that Head of CFCU still doesn't approve and sign Checklists so this part of finding remains open. Level of priority: <i>Intermediate</i>	3 months
Nº	Findings identified during the System audit 2022	Body	Status in February 2023	New deadline
1.	Failure to meet prescribed deadlines	CFCU CB	<i>Not implemented</i> Delays in performing verifications of expenditures by CFCU and CB and payment executions are still evident. Level of priority: <i>Major</i>	Immediately
2.	Un-respected procedures related to the planning of funds	CFCU	<i>Implemented</i> Reviewing the documentation for Financial Management related to planning of funds, the Audit Authority auditors concluded that CFCU notified HOS and Deputy NAO on information concerning the results of the negotiations. Procedures related to the planning of funds have been respected. Finding is closed.	

Out of 8 findings which remained open after the previous Annual Audit Activity Report, one of them is closed during the follow up.

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

Nº	Findings identified during the System audit 2017	Body	Status in February 2023	New deadline
1.	Missing internal procedures and templates for fraud risk	CBC Body	<i>Implemented</i> The Irregularity Officer is appointed. The training for the presentation of irregularities and risk management was held in Prishtina on September 14 and 15, 2022. The staff from Kosovo, Montenegro and Albania participated	
2.	Deficiencies in the Risk Management	CBC Body	<i>Implemented</i> The Risk Officer is appointed. The training for the presentation of irregularities and risk management was held in Prishtina on September 14 and 15, 2022. The staff from Kosovo, Montenegro and Albania participated	
3.	Lack of Inter-institutional agreements	NIPAC HOS CBC Body Control Body	<i>Not implemented</i> The draft Inter-institutional agreement between the NIPAC and Head of the Kosovo Operating Structure has been finalized and submitted to NIPAC for comments. Inter-institutional agreements have not been endorsed yet. Level of priority: <i>Intermediate</i>	3 months
4.	Internal audit unit in the Ministry of Local Government Administration (MLGA)	HOS CBC Body	<i>Not implemented</i> IAU does not have a manual for auditing IPA funds and trainings for audit of EU funds have not been provided for IAU staff. Level of priority: <i>Intermediate</i>	6 months
Nº	Findings identified during the System audit 2018	Body	Status in January 2023	New deadline
1.	Lack of Irregularity Officer and trainings in respect to irregularities	Control Body	<i>Implemented</i> The irregularity officer has been appointed. The training for the presentation of irregularities and risk management was held in Prishtina on September 14 and 15, 2022. The staff from Kosovo, Montenegro and Albania participated.	
2.	Deficiencies in the Risk Management	Control Body	<i>Implemented</i> The risk officer has been appointed.	

			The training for the presentation of irregularities and risk management was held in Prishtina on September 14 and 15, 2022. The staff from Kosovo, Montenegro and Albania participated. Level of priority: <i>Intermediate</i>	
Nº	Findings identified during the System audits 2019-2022	Body	Status in January 2023	New deadline
	No open findings			

Out of 6 findings which remained open after the previous Annual Audit Activity Report, four of them are closed during the follow up.

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

Not applicable.

8. OTHER INFORMATION

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

Not applicable.

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

Not applicable.

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

Not applicable.

9. OVERALL LEVEL OF ASSURANCE

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

Regarding CBC Programme Montenegro-Kosovo for the years 2014, 2015, 2018, 2019 and 2020 overall level of assurance could not be obtained bearing in mind that Audit Authority did not perform audit of operations in the reference period since no expenditure were declared to the European Commission in the financial year 2022 for indicated financial allocation. The assurance on the proper

functioning of the management and control system is based only on the result of the system audit (system assessment – please see section 4 above), and taking into account the results of the follow-up of the findings given in the previous years as well as the follow-up of the findings given during the system audit carried out during the current year where the management, control and supervision systems is assessed as *works, but some improvement(s) are needed*.

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

As for CBC Programme Montenegro-Kosovo for the years 2016 and 2017 the assurance on the proper functioning of the management and control system is based on the combined results of both the system audit (system assessment – please see section 4 above) and the audit of operations (total error rate – please see section 5 above).

The assessment of MCSS as *works, but some improvement(s) are needed* resulting from the system audit and follow-up activities is confirmed also by the results of the audit of operations, as the determined total error rate is below materiality level. Therefore, as the management, control and supervision system is assessed as works and the total error rate is below the materiality level, we will issue an unqualified opinion on the proper functioning of the system and on the legality and regularity of expenditure for CBC Programme Montenegro-Kosovo for the years 2016 and 2017.

The assurance on the Annual Financial Reports or Statements/Annual Account is based on the results of the audit as described in section 6.3 of this AAAR. Therefore, as based on the performed audit of Annual Financial Reports or Statements/Annual Account we have obtained reasonable assurance on the completeness, accuracy and veracity of the amounts declared in the accounts submitted to the Commission for the accounting year 2022, it is appropriate to issue an unqualified opinion on the reliability of Annual Financial Reports or Statements/Annual Account.

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

Not applicable.

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

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

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

During the audit of operations 1 error in the total amount of 126,23 € (EU part: 107,28€; other sources: 18,95€) was identified.

Annual Financial Report for 2022 for CBC Programme “Montenegro-Kosovo” for the year 2016 have been corrected for the amounts of 88,15 € (EU part: 74,93 €; other sources: 13,22 €) of ineligible costs determined during the audit of operation. Residual total error rate after correction is 0,015 %. NF should

take into account total amount of ineligible expenditure prescribed in the Final Audit Operation Report during issuing Annual Financial Report. Financial correction in the remaining amount of 38,08 € (EU part: 32,36 €; other sources: 5,71 €) must be included in next declaration/financial reports.

10. TABLE FOR DECLARED EXPENDITURE AND SAMPLE AUDITS

Fund	Reference (CCI)	Programme	A	B		C	D	E		F	G	H=F-G	GI	JH
			Expenditure declared to the Commission in reference to the year	Expenditure in reference to the financial year audited for the random sample		Total number of units in the population	Number of sampling units for the random sample	Amount and percentage (error rate) of irregular expenditure in random sample		Total projected error rate	Corrections implemented as a result of the total error rate	Residual total error rate	Other expenditure audited	Amount of irregular expenditure in other expenditure sample
				Amount	%			Amount	%	%				
IPA	C(2014) 9307 2014/037-592	CBC Programme Montenegro- Kosovo 2014	/	/	/	/	/	/	/	/	/	/	/	/
IPA	C(2014) 9307 2015/038-161	CBC Programme Montenegro- Kosovo 2015	/	/	/	/	/	/	/	/	/	/	/	/
IPA	C(2014) 9307 2016/038-182 2017/038-183	CBC Programme Montenegro- Kosovo 2016-2017	788.670,79 €	478.260,51 €	60,64%	7	2	126,23€	0,026%	0,026%	88,15 € 0,011%	0,015 %	N.a	N.a
IPA	C(2014) 9307 2018/041-472 2019/041-474 2020/041-475	CBC Programme Montenegro- Kosovo 2018-2020	/	/	/	/	/	/	/	/	/	/	/	/