



**MONTENEGRO  
AUDIT AUTHORITY**

Nº: 3011-4-06-198

Date: 15<sup>th</sup> March, 2023

**ANNUAL AUDIT ACTIVITY REPORT**

**OF THE AUDIT AUTHORITY FOR**

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

**FOR THE PERIOD**

**1<sup>st</sup> JANUARY 2022 – 31<sup>st</sup> DECEMBER 2022**

Podgorica, March 2023

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## List of abbreviation

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

## 1. INTRODUCTION

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

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

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

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

The Audit Authority is responsible for verifying:

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

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

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

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

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

Pursuant to Article 3(f) of the Framework Agreement between Montenegro and the European Commission on the arrangements for implementation of Union financial assistance to Montenegro under the Instrument for Pre-accession Assistance (IPA II), reference period for this Annual Audit Activity Report is financial year and covers the period from 1<sup>st</sup> January 2022 to 31<sup>st</sup> 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-Albania". Also, the follow up of the findings and recommendations given in the course of previous audits was included in the system audit engagement.

Based on level of implementation of IPA II 2014-2020 CBC Programme "Montenegro-Albania", as well as in accordance with adopted Audit Strategy for period 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) on 30<sup>th</sup> March 2022 regarding 2016 financial allocation and one Declaration of Expenditure regarding 2017 financial allocation was sent on 7<sup>th</sup> October 2022. 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 operations in the total amount of 79.695,36 €** out of which 67.735,76€ is EU part and 11.959,60€ is private co-financing (other sources).

Regarding 2017 allocation **recognised cost has been declared for three operations in the total amount of 364.241,34 €** out of which 309.605,14€ is EU part and 54.636,20€ 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 443.936,70€ 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.

Four operations were selected in the sample amounting to 316.332,75€.

Sampled operations are as follow:

- 1<sup>st</sup> Stratum – Action Programme 2016

- CFCU/MNE/158 - Disasters do not know borders 2 and
- CFCU/MNE/159 - Skadar Lake without chemical pollution

- 2<sup>nd</sup> Stratum – Action Programme 2017

- CFCU/MNE/161 - Work4Youth and
- CFCU/MNE/164 - Preparing Albanian and Montenegrin Youth for Career Opportunities in the Tourism Sector

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 15<sup>th</sup> 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-ALB 2014	2014/037-593	1.051.853,92	0,00	1.022.926,50	183.468,00	0,00	0,00	142.991,88	0,00
CBC MNE-ALB 2015	2015/038-158	1.446.217,57	0,00	1.297.254,09	231.327,86	148.963,48	0,00	140.241,44	90.288,59
CBC MNE-ALB 2016	2016/038-174	954.546,08	0,00	165.696,38	29.260,33	788.849,70	0,00	650.816,82	745.453,92
CBC MNE-ALB 2017	2017/038-175	756.586,57	0,00	309.605,14	54.636,20	446.981,43	0,00	294.670,87	433.413,43
CBC MNE-ALB 2018	2018/041-468	0,00	0,00	0,00	0,00	0,00	0,00	1.360.000,00	756.921,89
CBC MNE-ALB 2019	2019/041-470	0,00	0,00	0,00	0,00	0,00	0,00	1.360.000,00	293.229,60
CBC MNE-ALB 2020	2020/041-471	0,00	0,00	0,00	0,00	0,00	0,00	1.224.000,00	0,00

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-Albania" for the year 2014 (2014/037-593), the Cross-Border Cooperation Action Programme "Montenegro-Albania" for the years 2015-2017 (2015/038-158, 2016/038-174 and 2017/038-175) and Cross-Border Cooperation Action Programme "Montenegro-Albania" for the years 2018-2020 (2018/041-468, 2019/041-470 and 2020/041-471) which provide assistance for cross-border cooperation in the thematic area spelled out in the IPA II 2014-2020 CBC Programme "Montenegro – Albania" (C(2014) 9352).

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

- National IPA Coordinators of both countries;
- The National Authorising Officer of Montenegro;
- The Management Structure of Montenegro (National Fund and NAO Support Office);
- The Operating Structure (OS) of Montenegro composed of: Head of the Operating Structure (Montenegrin HOS), Cross-border Cooperation Body (Montenegrin CBC Body) and Contracting Authority (CA/CFCU). The first two are located in the 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 Albania composed of: Head of the Operating Structure (AL HOS) and Cross-border Cooperation Body (AL CBC Body) which are located in the State Agency of Strategic Programming and Assistance Coordination (SASPAC);
- Control Body (AL CB) placed in the Ministry of Finance and Economy of Albania.

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

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

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

With a view to drawing up an audit opinion, Audit Authority assessed results of audit activities from the audits of management, control and supervision system and audit of operation performed during 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 15<sup>th</sup> 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 29<sup>th</sup> 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 7<sup>th</sup> July 2022. (Letter N°: 17-908/22-180821)

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

##### **– National IPA Coordinator**

At the session held on 1<sup>st</sup> 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 8<sup>th</sup> December 2022. The function of NIPAC was performed by Mr

Bojan Vujović, Deputy NIPAC until 20<sup>th</sup> 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 7<sup>th</sup> July 2022 (Letter N<sup>o</sup>: 17-908/22-180821) and 3<sup>rd</sup> February 2023. (Letter N<sup>o</sup>: 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 29<sup>th</sup> April 2022. At the session held on 1<sup>st</sup> 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 8<sup>th</sup> December 2022. The function of NAO was performed by Ms Anja Amidžić, Deputy NAO until 20<sup>th</sup> 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 7<sup>th</sup> July 2022 (Letter N<sup>o</sup>: 17-908/22-180821) and 3<sup>rd</sup> February 2023. (Letter N<sup>o</sup>: 05-908/23-60/1)

– **Head of Operating Structure**

At the session held on 3<sup>rd</sup> 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 3<sup>rd</sup> February 2023. (Letter N<sup>o</sup>: 05-908/23-60/1)

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

On 7<sup>th</sup> 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 20<sup>th</sup> 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 28<sup>th</sup> December 2022.

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

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

At the session held on 6<sup>th</sup> 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 28<sup>th</sup> December 2022, the Government adopted the Decision on the re-appointment of Ms Jelena Davidović as Director General of Directorate for Finance and Contracting of EU Assistance Fund.

Deputy NAO informed European Commission and Audit Authority on this personal change on 3<sup>rd</sup> February 2023. (Letter N<sup>o</sup>: 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 31<sup>st</sup> August 2022.

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

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

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

#### **– Head of Operating Structure and Head of CBC Body**

According to Internal Order of the General Director of the State Agency for Strategic Programming and Assistance Coordination (SASPAC) No.65, dated 28<sup>th</sup> April 2022, Ms Kjara Adhami was appointed the new Director of the Directorate for the Administration of EU Financial Assistance within SASPAC. She was also been appointed as the Head of Operating Structure and the Irregularity and Risk Officer.

On the basis of the same Order, Mrs. Xherina Haxhillari was appointed as the Head of the IPA Cross-Border Unit/CBC Body.

Audit Authority was informed about these changes by e-mail sent by Montenegrin OS on 12<sup>th</sup> May 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 – Albania" 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 - Albania", in line with the functions and responsibilities set out in Clause 5 of Annex A to the Framework Agreement.

Since the Audit Authority does not have the authorisation to directly carry out its functions in the whole territory covered by CBC Programme "Montenegro – Albania", it is assisted by Group of auditors comprising a representative of Audit Authority of Montenegro and the Audit Agency for the EU Accredited Assistance Programmes of Albania. The Audit Agency for the EU-Accredited Assistance Programmes of Albania is an independent body established by Law N° 90/2016 “On the organisation and functioning of the Audit Agency for the EU-Accredited Assistance Programmes in the Republic of Albania”.

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

Audit period	1. Programme (CCI and title)	2. Audit Body	3. Audited Body(ies)	4. Date of the audit	5. Scope of the audit	6. Principal findings and conclusions	7. Problems of systemic character and measures taken	8. Estimated financial impact (if applicable)	9. State of follow-up (closed /or not)
01.01.2022. - 31.12.2022.	IPA II 2014-2020 Cross-Border Cooperation Programme Montenegro-Albania (C (2014) 9352)  <i>CRIS N°:</i> 2014/037-593 2015/038-158 2016/038-174 2017/038-175 2018/041-468 2019/041-470 2020/041-471	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-Albania	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 – CA/CFCU; 2. No evidence related to the verification of payment request – CA/CFCU;  <u><i>Findings related to Albania</i></u>  No findings were identified by Albanian GoA members related to MCSS in Albania.  <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.	-	-	Findings are OPEN.

Based on level of implementation of IPA II 2014-2020 CBC Programme "Montenegro-Albania" and all collected information and documentation, as well as in accordance with adopted Audit Strategy for period 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:

**Contracting Authority (CA):**

- 3(a) Selection and development of control activities

**Control Body (AL 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 the MCSS.

The system audit encompassed the period from 1<sup>st</sup> October 2021 to 31<sup>st</sup> July 2022. The audit was performed in the period from 11<sup>th</sup> July 2022 until 2<sup>nd</sup> 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 Albania, Head of Operating Structure in Montenegro and Head of Operating Structure in Albania on 12<sup>th</sup> January 2023.

#### **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 requirements during system audit engagement planning.

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

- International Standards on Auditing (and in particular ISA 300, 315, 320, 330, 500),
- Guidance for Member States on Audit Strategy (Programming period 2014-2020), (EGESIF\_14-0011-02 final 27/08/2015),
- Guidance for the Commission and Member States on a common methodology for the assessment of management and control systems (EGESIF\_14-0010-FINAL 18/12/2014) and
- Guidance on sampling methods for audit authorities, Programming periods 2007-2013 and 2014-2020 (EGESIF\_16-0014-01 20/01/2017).

During the preparation of Audit Strategy, risks were identified and taken into account at the programme/structures and authorities' level while during system audit engagement planning risk assessment was performed at the level of each key 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 (AL 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 ICF 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 3 findings related to Montenegrin bodies: 1 major, 1 intermediate and 1 minor. No findings were identified related to Albanian 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:

<b>IPA Body</b> <b>Audit area</b>	<b>CA/CFCU</b>	<b>CB ALB</b>	<b>TOTAL</b>
3(a)	2	2	2
<b>TOTAL</b>	<b>2</b>	<b>2</b>	<b>2</b>

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:



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

According to the Manual of Procedures (version 2.0 and 2.1) Chapters Financial Management and Accounting upon receipt of the Financial report and Payment request issued by the grant beneficiary, IA/CFCU 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/CFCU has a period of maximum 30 calendar days from the receipt Interim Financial Report (Narrative and Financial Part) to complete, send and enter into the SAP Written Approval Letter.

According to Grant Contract General Condition, 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 Condition, 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 Letters (interim report) had not been respected.
2. Deadlines prescribed in the PRAG rules, General Conditions of the Contracts related to the execution of the payments (further pre-financing request) to the Grant beneficiaries had not been respected.

*Namely, Audit Authority auditors reviewed procedures related to the approval of interim report and reported costs for five (5) contracts (CPOS-FROS, Checklists for verification of the expenditure for Interim Report) and concluded that Written Approval Letters for five (5) contracts had been sent and made after defined deadlines as follows:*

#### **1. For CFCU/MNE/159**

Interim Financial Report was archived on 31<sup>st</sup> January 2022, deadline for entry into the accounting system Written Approval Letter was 2<sup>nd</sup> March 2022.

Bearing in mind that:

1. Control Body suspended Contract from 31<sup>st</sup> January 2022 until 28<sup>th</sup> March 2022, new deadline for entry into accounting system Written Approval Letter was 27<sup>th</sup> April 2022.
2. CFCU sent Request for additional information on 1<sup>st</sup> April 2022 (deadline for submission of documents was 18<sup>th</sup> April 2022) and 11<sup>th</sup> May 2022 (deadline for submission 18<sup>th</sup> May 2022), **new deadline for entry into accounting system was 23<sup>rd</sup> May 2022.**

**Written Approval Letter was sent to the Grant Beneficiary on 27<sup>th</sup> July 2022 and entered into accounting system on 27<sup>th</sup> July 2022.**

#### **2. For CFCU/MNE/160**

Interim Financial and Narrative Report was archived on 18<sup>th</sup> March 2022, **which is not in accordance with the deadline (deadline is one month after 6-month reporting period 1<sup>st</sup> August 2021 – 31<sup>st</sup> January 2022), which means that GB submitted Interim Financial and Narrative report 18 days late**, deadline for entry into the accounting system Written Approval Letter was 17<sup>th</sup> April 2022.

Bearing in mind that:

1. CFCU sent Request for additional information 15<sup>th</sup> April 2022 (deadline for submission of documents was 19<sup>th</sup> April 2022), **new deadline for entry into accounting system was 22<sup>nd</sup> April 2022.**
2. Even though deadline has passed, CFCU sent Request for additional information/clarification on 9<sup>th</sup> May 2022 (deadline for submission of documents was 12<sup>th</sup> May 2022.) **new deadline cannot be taken into consideration.**

**Written Approval Letter was sent to the Grant Beneficiary on 24<sup>th</sup> May 2022 and entered into accounting system on 24<sup>th</sup> May 2022.**

### **3. For CFCU/MNE/161**

Interim Financial and Narrative Report was archived on 22<sup>nd</sup> February 2022, deadline for entry into the accounting system Written Approval Letter was 24<sup>th</sup> March 2022.

Bearing in mind that:

1. Even though deadline has passed, CFCU sent Request for additional information on 29<sup>th</sup> March 2022 (deadline for submission of documents was 11<sup>th</sup> April 2022) **new deadline cannot be taken into consideration.**

**Written Approval Letter was sent to the Grant Beneficiary on 9<sup>th</sup> June 2022 and entered into accounting system on 9<sup>th</sup> June 2022.**

### **4. For CFCU/MNE/158**

Interim Financial and Narrative Report was archived on 6<sup>th</sup> October 2021, **which is not in accordance with the deadline (deadline is one month after 6-month reporting period 1<sup>st</sup> March 2021 – 31<sup>st</sup> August 2021), which means that GB submitted Interim Financial and Narrative report 6 days late**, deadline for entry into the accounting system Written Approval Letter was 5<sup>th</sup> November 2021.

Bearing in mind that:

1. CFCU sent Request for additional information on 21<sup>st</sup> October 2021 (deadline for submission of documents was 22<sup>nd</sup> October 2021), **new deadline for entry into accounting system was 6<sup>th</sup> November 2021.**

**Written Approval Letter was sent on 25<sup>th</sup> November 2021 and entered into accounting system on 25<sup>th</sup> November 2021.**

### **5. For CFCU/MNE/164**

Interim Financial and Narrative Report was archived on 8<sup>th</sup> February 2022, **which is not in accordance with the deadline (deadline is one month after 6-month reporting period 1<sup>st</sup> June 2021 – 31<sup>st</sup> November 2021), which means that GB submitted Interim Financial and Narrative report 39 days late**, deadline for entry into the accounting system Written Approval Letter was 10<sup>th</sup> March 2022.

Bearing in mind that:

1. CFCU sent Request for additional information on 24<sup>th</sup> February 2022 (deadline for submission of documents was 7<sup>th</sup> March 2022), **new deadline for entry into accounting system was 21<sup>st</sup> March 2022.**
2. Even though deadline has passed, CFCU sent Request for additional information and suspended Contract on 30<sup>th</sup> March 2022 (deadline for submission of documents was 7<sup>th</sup> April 2021), **new deadline cannot be taken into consideration.**

**Written Approval Letter was sent to the Grant Beneficiary on 28<sup>th</sup> April 2022 and entered into accounting system on 28<sup>th</sup> April 2022.**

Additionally, it is evident that deadline defined in the Special Conditions of the Contract, Article 4 – Reporting and Payment arrangements Point 4.2 “*Progress Narrative and Financial Reports, together with the detailed breakdown of expenditure and supporting documents, in accordance with the Article 15.7 of Annex II, covering each 6 (six) months of the period of implementation shall be submitted within 1 (one) month after the period of implementation concerned*” for submission Interim Financial Report was not respected by Contractors CFCU/MNE/160, CFCU/MNE158 and CFCU/MNE/164.

*Audit Authority auditors reviewed documentation related to the approval of further pre-financing payment for two (2) contracts (Checklist for Interim payment, Request for Funds Checklists and SAP printout) and concluded that Payment executions for two (2) contracts had not been sent and made in accordance with the defined deadlines as follows:*

## 1. For CFCU/MNE/161

Interim Financial and Narrative Report was archived on 22<sup>nd</sup> March 2022.

1. Contract was suspended for 14 days (Request for additional information was submitted on 29<sup>th</sup> March 2022 and deadline for submission of the documents was 11<sup>th</sup> April 2021).

Bearing in mind that:

- \* Request for Further pre-financing Payment was submitted on 25<sup>th</sup> March 2022,
- \* 14 days of the suspension

**Deadline for executed the further pre-financing payment and entered into the accounting system was 7<sup>th</sup> July 2022. However, Payment order was made on 18<sup>th</sup> August 2022. Additionally, the payment has not been executed during the period under review. Due to the unaccounted bank commission by CFCU, the payment was stopped by CKB bank.**

**After the audit period, the Order for foreign currency payment with the calculated commission No: 06-908/22-174 was signed by the Head of FD and Minister of the Ministry of Finance and sent to the CKB Bank on 19<sup>th</sup> September 2022.**

## 2. For CFCU/MNE/164

Interim Financial and Narrative Report was archived on 8<sup>th</sup> February 2022.

1. Contract was suspended for 11 days (Request for additional information was submitted on 24<sup>th</sup> February 2022 and deadline for submission of the documents was 7<sup>th</sup> March 2022).
2. Contract was suspended for 8 days (Request for additional information was submitted on 30<sup>th</sup> March 2022 and deadline for submission of the documents was 7<sup>th</sup> April 2022)

Bearing in mind that:

- \* Request for Further pre-financing Payment was submitted on 8<sup>th</sup> February 2022,
- \* 19 days of the suspension

**Deadline for executed the further pre-financing payment and entered into the accounting system was 29<sup>th</sup> May 2022. However, payment order was made on 16<sup>th</sup> June 2022, and it was posted in Payment book on 20<sup>th</sup> June 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. Establish better coordination with the Control Body in respect to the activities for performing verification, in a way that after checking the documents by relevant CFCU and Control Body staff (FLC1 and FLC2), CFCU/ Control Body sends one Request for additional information/clarification in accordance with the deadline prescribed in point 15.5 of Grant Contract General Conditions and deadline prescribed in the Manual of Procedures, Chapter Financial Management, point 4.5 Modalities concerning cost recognised – Table 3: Specific operational procedures: Approval of financial reports/approval costs.
4. In coordination with the Control Body give deadline to the Grant beneficiaries for submitting the additional documentation and clarifications which is realistic, bearing in mind that the beneficiaries already have one month from the period of the implementation for submitting the further pre-financing reports. Documents submitted by beneficiaries after the deadline should be considered unacceptable.

➤ **Finding N° 2: No evidence related to the verification of payment request**

ICF requirement:

*3. Control activities*

(a) Selection and development of control activities

***Level of priority: Intermediate***

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

According to the Manual of Procedures (version 2.0) Chapter Financing Management; point 2. Functions and responsibilities within the Finance Division „*The use of public funds, from the European Union have to be accounted for in an accurate and consistent manner, following the principle of sound financial management with proper internal control mechanisms, rules and procedures in place that allow the creation of adequate audit trails.*

*While performing its daily activities Financial Controllers fulfil the following requirements of Annex B to the FWA (Internal Control Framework):*

- *Execution of control by using checklists. Checklists are also used to formalise supervision and approvals by management;*
- *Execution of double checks to ensure that payments are made only for justified invoices/payment requests which fulfil all contractual requirements;*
- *Execution of second level of control by the head of the FD to ensure the accurate financial management of the contract and that the procedure has been properly applied;*
- *Execution of procedures for confirmation of outputs delivery...;*

Reviewing the procedures for Financial Management related to the approval payment executions, the Audit Authority auditors concluded that the CFCU hadn't conducted verification of the submitted Further pre-financing Payment Request submitted on 9<sup>th</sup> March 2022 by the Contract CFCU/MNE/159 in accordance with the written procedures.

*Audit Authority auditors reviewed procedures related to the approval of further pre-financing payment for three (3) contracts and concluded that for Contract CFCU/MNE/159 CFCU hadn't prepared:*

1. Checklist for Grant Contracts for Interim Payments and
2. Notification Letter to the Grant Beneficiary about status of its payment request.

**Recommendation:**

Audit Authority recommends to CFCU to perform procedures related to the verification and approval of further pre-financing payment request respectively, it is mandatory to fulfil Checklist for Interim Payment for Contract CFCU/MNE/159.

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

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

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

### **5. AUDITS OF SAMPLES OF TRANSACTIONS**

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

The audit of sample of transaction in the framework of IPA II 2014-2020 CBC Programme “Montenegro-Albania” was conducted by the Audit Authority of Montenegro according to Audit Strategy 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 Audit Agency for the EU - Accredited Assistance Programmes of Albania who performed the audit in territory of Albania in accordance with Rules of procedures of Group of Auditors.

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

The sampling was performed by the Audit Authority in accordance with the method described in the Audit Strategy 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-Albania” for the year 2016 in total amount of 79.695,36 € (67.735,76 € EU part and 11.959,60 € private co-financing) and one Declaration of Expenditure regarding Action Programme for the year 2017 in total amount of 364.241,34 € (309.605,14 € EU part and 54.636,20 € private co-financing). As for financial allocation for 2014 and 2015 no expenditures were declared during the year 2022 while for allocation for 2018 and 2019 contracts were awarded in December 2022. For allocation for 2020 there are no signed contracts.

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 443.936,70 € 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	Interim payments	Total amount paid by CFCU	Cost recognised		
			EU part	Private co-financing	Total					EU part	Private co-financing	Total
FA 2016 CRIS 2016 (2016/038-174)												
CFCU/MNE/157	Medicinal and Aromatic Plants	Municipality of Plav	380.284,69	67.109,06	447.393,75	233.098,49	210.473,06	-	233.098,49	22.625,43	3.992,72	26.618,15
CFCU/MNE/158	Disasters do not know borders 2	FORS Montenegro	451.686,68	79.771,93	531.458,61	297.061,05	274.591,61	-	297.061,05	22.469,44	3.968,30	26.437,74
CFCU/MNE/159	Skadar Lake without chemical pollution	Centre for Ecotoxicological Research	397.630,13	70.225,06	467.855,19	269.066,95	246.426,06	-	269.066,95	22.640,89	3.998,58	26.639,47
CFCU/MNE/162	A.C.C.E.N.T.	Caritas Barske Nadbiskupije	375.761,40	66.883,69	442.645,09	155.319,59	155.319,59	-	155.319,59	0,00	0,00	0,00
Total			1.605.362,90	283.989,74	1.889.352,64	954.546,08	886.810,32	-	954.546,08	67.735,76	11.959,60	79.695,36
Contract	Name of the Contract	Contractor	Contracted			Pre-financing paid	Open pre-financing	Interim payments	Total amount paid by CFCU	Cost recognised		
			EU part	Private co-financing	Total					EU part	Private co-financing	Total
FA 2017 CRIS 2017 (2017/038-175)												
CFCU/MNE/160	MNE and ALB towards zero waste	RDA for Bjelasica, Komovi and Prokletije	478.988,18	84.527,32	563.515,50	244.369,01	158.531,08	-	244.369,01	85.837,93	15.147,87	100.985,80
CFCU/MNE/161	Work4Youth	Partners Albania for Change and Development	304.088,60	53.662,69	357.751,29	273.679,74	141.598,29	-	273.679,74	132.081,45	23.308,49	155.389,94
CFCU/MNE/164	Prep AL & Mne Youth for Career Opp	World Vision Albania	268.180,66	47.326,00	315.506,66	238.537,82	146.852,06	-	238.537,82	91.685,76	16.179,84	107.865,60
Total			1.051.257,44	185.516,01	1.236.773,45	756.586,57	446.981,43	-	756.586,57	309.605,14	54.636,20	364.241,34
TOTAL FA 2016 and FA 2017			2.656.620,34	469.505,75	3.126.126,09	1.711.132,65	1.333.791,75		1.711.132,65	377.340,90	66.595,80	443.936,70



**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 20<sup>th</sup> 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 (Action 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 4 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.

Four (4) operations in overall amount of 316.332,75€ have been selected in the sample which represents 57,14% of the total number of units/operations (population) and 71,26% of total amount of declared costs. Two operations have been selected from first stratum (Action Programme 2016) and two 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><b>CBC Action Programme “Montenegro-Albania” for the year 2016 and 2017</b></i>		
1	Amount of declared expenditures	443.936,70 €
2	No of units in population	7
3	Value of the sample tested	316.332,75 €
4	Value of the sample tested in %	71,26%
5	No of units in sample	4
6	No of units in sample in %	57,14%
7	Materiality 2% of expenditure declared in reference period (tolerable misstatement) (1*2%)	8.878,73 €
8	Error amount determined by the audit	20,55 €
9	Sample error rate ((8/3)*100)	0,006%
10	Projected random error (1*9)	26,64 €
11	Total projected error rate ((10/1)*100)%	0,006%

**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 four operations. Details about operations we have selected are given in the table below:

Nº	Sampled Contracts (operations)	EU part	Private co-financing	Total cost recognised declared to the Commission	Expenditure audited (EUR)	Audited / Declared expenditure (%)
1 <sup>st</sup> Stratum – Action Programme 2016						
1	CFCU/MNE/158 Disasters do not know borders 2	22.469,44	3.968,30	26.437,74	26.437,74	100%
2	CFCU/MNE/159 Skadar Lake without chemical pollution	22.640,89	3.998,58	26.639,47	26.639,47	100%
2 <sup>nd</sup> Stratum – Action Programme 2017						
3	CFCU/MNE/161 Work4Youth	132.081,45	23.308,49	155.389,94	155.389,94	100%
4	CFCU/MNE/164 Prep AL & MNE Youth for Career Opp	91.685,76	16.179,84	107.865,60	107.865,60	100%
Total		268.877,54	47.455,21	316.332,75	316.332,75	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 carried out on-the-spot checks at the premises of Grant Beneficiaries, i.e. Centre for Ecotoxicological Research from Contract CFCU/MNE/159, Association for Democratic Prosperity ZID from Contract CFCU/MNE/161 and New Horizon from Contract CFCU/MNE/164.

The Albanian GoA members carried out on the spot check at the premises of Albanian project partners, i.e. Prefecture of Shkodra from Contract CFCU/MNE/158, University of Tirana and Association Green Centre Albania from Contract CFCU/MNE/159, Partners Albania for Change and Development and Youth Intellectuals – Hope from Contract CFCU/MNE/161 and World Vision Albania from Contract CFCU/MNE/164.

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° 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/161 (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-Albania” and request missing documentation/evidence from Grant Beneficiaries.

### **➤ Finding N° 2: Delays in further pre-financing payment to the coordinator**

**Responsible body:** CB and IA/CFCU

During the audit mission it is noted that payment deadlines for the further pre-financing have not been respected with regards to the contract CFCU/MNE/164 “Pathways to Career Development: Preparing Albanian and Montenegrin Youth for Career Opportunities in the Tourism Sector”.

Referring to the Grant Contract / General Conditions, Article 15.4 Payment deadlines it is stated:

*“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.”*

The request for further pre-financing payment is submitted by the Contractor (WVA) to CFCU MNE and Control Body on 01/02/2022 together with the Second Interim Report (Narrative and Financial Report) covering the period 1/06/2021-30/11/2021, while the further pre-financing payment has been disbursed in the WVA account on 28/06/2022. All this process including verification and payment procedure has required a period of almost five months overpassing 90 days deadline set by Grant Contract General Conditions.

Regarding the Programme Level Control Procedures for the IPA II CBC Programmes Montenegro-Albania - Version 1, at the Chapter 9. Verifications of operations, Article 9.3 Administrative verification *“the Financial part of the Reports for the Albanian beneficiaries will be subject to checks/approval performed by Control Body“....*

*“Deadline for Control Body to submit Transmission Letter with relevant annexes to the Contracting Authority is 15 calendar days from the day of receiving the documents from the Coordinator. It should be noted that in case of request for the additional information, the stated 15 calendar days will be suspended from the moment of the submission of the request of the additional information up until the reception of the complete documentation by the coordinator. “*

During the audit mission there are noticed delays in the verification process for the Second Interim Report of the project CFCU/MNE/164.

The Second Interim Report (Narrative and Financial Report) covering the period 1/06/2021-30/11/2021 is submitted by the Contractor (WVA) to CFCU MNE and Control Body on 01/02/2022.

First additional information has been required by Control Body (CB) on 21/02/2021 exceeding the deadline of 15 days for verification defined in PLCP from the date of submission of the Second Interim Report.

Additional information has been sent by the Coordinator (WVA) to Control Body on 04/03/2022.

The second request for additional information by Control Body has been sent to CFCU MNE on 30/03/2021, again overpassing the deadline stipulated in the PLCP. The Coordinator provided the additional information on 07/04/2022.

Confirmation of Eligible Expenditures have been submitted by Control Body on 20/04/2022.

The exceeded deadlines during a) the verification process by Control Body for almost 2 months (taking into account the suspended time for additional information), as well as b) payment execution process for more than two months by CFCU MNE, have led to non-compliance with the terms of the contract.

***Level of priority: Intermediate***

**Recommendation:**

It is necessary for the Control Body to carry out the verification respecting the procedures and deadlines prescribed in PLCP.

CFCU and CB should establish better coordination in order to respect contract deadlines.

**Transaction findings:**

➤ **Finding N° 1: Ineligible expenditure related to the Budget line: Travel (Travel costs)**

***Project name and number:*** Skadar Lake without chemical pollution, N°: CFCU/MNE/159

***Project partner:*** Centre for Ecotoxicological research – CETI

**Finding:** For the First reporting period (01/1/2021-31/6/2021) Grant Beneficiary “Centre for Ecotoxicological research-CETP”, Coordinator of the Project “Skadar lake without chemical pollution – SOLUTION” CFCU/MNE/159 submitted Financial and Narrative Report to the CFCU with supporting documents.

Travel orders documents/evidence (international travel) have been submitted.

In accordance with the Written Approval Letter and Clarification as well as FROS and supporting documents it is evident that travel costs related to the team of Montenegro have been fully accepted by CFCU. CFCU approved International travel costs in total amount of 121,21€.

AA auditors checked all evidence/costs related to the Budget Line 2. Travel (2.1 International travel) and concluded that travel costs have not been calculated in acceptable manner.

Namely, submitted evidence (Travel orders and Invoices for fuel) referred to the travel costs where GB CETI used company car for project travels.

However, CFCU approved cost in accordance with the budget plan where it is predicted that GB/CETI use private car for project travels.

Having in mind Decree on reimbursement of expenses of employees in the public sector (Article 25) it is stated that *“an employee may, with the written consent of the manager or a person authorized by him, use his own car for official purposes.*

*The employee, in the case referred to in paragraph 1 of this article, is entitled to compensation in the amount of 25% of the price of a litre of fuel per kilometre travelled. “*

AA auditors concluded that car used on these trips were company, not private one and based on that, calculation of the eligible costs should be calculated based on the Invoices for fuel (Invoice N<sup>o</sup>: 1432381234 from 19<sup>th</sup> February 2021 in amount of 77,00€ and Invoice N<sup>o</sup>: 1474000823 from 23<sup>rd</sup> April 2021 in amount of 25,00€). Total eligible amount for International travel costs should be 102,00€.

**For this budget item, AA auditor concluded that there were ineligible costs in amount of 19,21€ and indirect cost related to this issue is 1,34€.**

**Total ineligible costs: 20,55€.**

**(EU Part 17,46€ and Private Contribution 3,09€)**

***Level of priority: Major***

#### **Recommendation:**

We recommend recovery of identified ineligible expenditure in the overall amount of 20,55€.

Bearing in mind the fact that travel costs have not been calculated in a correct manner by CETI as well as that CFCU approved this cost, we recommend to the CFCU to re-perform verification of all travel costs which have been approved during the last period (all Progress Narrative and Financial Reports) and reject the costs in the manner recommended by the Audit Authority auditors.

#### **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 1 finding with financial impact in total amount of 20,55 € (0,006%). As this error is treated as random error, it is projected (extrapolated) to the whole population (443.936,70€), and the projected (extrapolated) error is 26,64 €.

**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 443.936,70€ in the period 01/01 – 31/12/2022 is in all material aspects, legal and regular, except expenditures described in the point 5.8. of this report. Total projected error on the overall population is 26,64€ (0,006%) and it is below the materiality threshold of 8.878,73 € (2%).

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

During the audit of operations 1 error in the total amount of 20,55€ (EU part: 17,46€; other sources: 3,09€) was identified. However, Management structure/Operating structure did not implement financial correction before submitting financial statements to the Commission i.e. annual accounts have not been corrected for the amounts of ineligible costs determined during the audit of operation.

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

Due to the fact that the financial correction is not implemented in the current financial year, residual total error rate is the same as projected (extrapolated) error rate 26,64€ (0,006%).

**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.**

See Part 7.1. Follow-up of previous years' audit activity - *Status of audit of operation findings*

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

Not applicable. Findings identified are not systemic in nature.

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

Not applicable.

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

Not applicable.

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

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

Based on the audit work performed we have obtained reasonable assurance that the expenditure declared in the amount of 443.936,70€ 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 considering that the total projected error rate is below the materiality level of 2%, Audit Authority concluded that assessment of MCSS given during system audit which is in Category 2 ('works, but improvements are needed') shall remain same.

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

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

The audit of the annual financial reports or statements/annual account in the framework of IPA II 2014-2020 CBC Programme "Montenegro-Albania" was conducted by the Audit Authority of Montenegro according to Audit Strategy 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 15<sup>th</sup> February 2023 including the CBC Programmes "Montenegro-Albania" 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		Next 12 months
CBC MNE-ALB 2014	2014/037-593	1.051.853,92	0,00	1.022.926,50	183.468,00	0,00	0,00	142.991,88	0,00
CBC MNE-ALB 2015	2015/ 038-158	1.446.217,57	0,00	1.297.254,09	231.327,86	148.963,48	0,00	140.241,44	90.288,59
CBC MNE-ALB 2016	2016/038-174	954.546,08	0,00	165.696,38	29.260,33	788.849,70	0,00	650.816,82	745.453,92
CBC MNE-ALB 2017	2017/ 038-175	756.586,57	0,00	309.605,14	54.636,20	446.981,43	0,00	294.670,87	433.413,43
CBC MNE-ALB 2018	2018/041-468	0,00	0,00	0,00	0,00	0,00	0,00	1.360.000,00	756.921,89
CBC MNE-ALB 2019	2019/041-470	0,00	0,00	0,00	0,00	0,00	0,00	1.360.000,00	293.229,60
CBC MNE-ALB 2020	2020/041-471	0,00	0,00	0,00	0,00	0,00	0,00	1.224.000,00	0,00

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

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

- 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-ALB 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	Cost incurred and accepted but not yet paid EU Part	Calculation by AA	Payment Order	Bank statement	Record in CFCU Acc system	Pre-financing paid	Pre-financing cleared	Cost accepted EU part	Open pre-financing	Calculation by AA	Recovery
CBC MNE-AL 2014	1.165.918,37	209.126,13	Pre-financing	1.062.344,91	1.051.853,92	1.051.853,92	246.304,27	246.304,27	1.051.853,92	1.051.853,92	1.051.853,92	1.051.853,92	1.051.853,92	1.051.853,92	0,00	1.022.926,50	0,00	1.022.926,50	1.051.853,92	1.051.853,92	1.051.853,92	1.051.853,92	1.022.926,50	0,00	28.927,42	28.927,42	28.927,42
			Further pre-financing																								
CBC MNE-AL 2015*	1.586.459,01	280.241,90	Pre-financing	1.448.059,68	1.446.217,57	1.446.217,57	329.145,40	329.145,40	1.446.217,57	1.446.217,57	1.446.217,57	1.446.217,57	1.446.217,57	1.446.217,57	90.288,59	1.297.254,09	12.122,32	1.296.983,11	1.446.217,57	1.446.217,57	1.446.217,57	1.446.217,57	1.297.254,09	12.122,32	148.963,48	149.234,46	12.421,51
			Further pre-financing																								
CBC MNE-AL 2016**	1.605.362,90	283.989,74	Pre-Financing	954.546,08	954.546,08	954.546,08	0,00	0,00	954.546,08	954.546,08	954.546,08	954.546,08	954.546,08	954.546,08	745.453,92	165.696,38	0,00	165.678,92	954.546,08	954.546,08	954.546,08	954.546,08	165.696,38	0,00	788.849,70	788.867,16	17,46
CBC MNE-AL 2017	1.051.257,44	185.516,01	Pre-Financing	535.857,62	535.857,62	535.857,62	0,00	0,00	535.857,62	535.857,62	535.857,62	535.857,62	535.857,62	535.857,62	433.413,33	309.605,14	0,00	309.605,14	756.586,27	756.586,27	756.586,27	756.586,27	309.605,14	0,00	446.981,13	446.981,13	0,00
MNE-AL 2018	1.700.000,00	305.144,47	N/A	N/A	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	756.921,89	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
MNE-AL 2019	420.309,76	494.482,07	N/A	N/A	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	293.229,60	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
CBC MNE-AL 2020	0,00	0,00	N/A	N/A	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	1.224.000,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00

\* Column recovery: Amount of recovery (which is recognised in the AFR) 12.150,53€ plus amount (which should be recognised by CFCU and recovery based on the findings recognised during the audit of operation for 2020 and results of follow up presented in the Audit Recommendation Status Report issued 2022) 270,97€ (115,99+154,993) = 12.421,50 €.  
Please see Annex II - Follow up of findings given in previous audit of operations and audit of accounts

\*\* Column recovery: Amount of recovery which should be recognised by CFCU and recovery based on the findings recognised during the audit of operation for 2022 and results of follow up presented in the Audit Recommendation Status Report issued 2022) = 17,46 €  
Please see Annex II - Follow up of findings given in previous audit of operations

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

As for CBC programme MNE-ALB 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 financial corrections identified during Audit of operation have not been taken into account, which is not in accordance with the Framework Agreement, Article 36 - Examination and acceptance of accounts procedures.

Namely, in the Final Audit of Operation Report N°: 3011-2-06-133, from 13<sup>th</sup> February 2023, it is concluded that costs related to the activity 2. Travel (2.1 International travel) and corresponding indirect costs are ineligible in total amount of **20,55€** (EU part: 17,46€; other sources: 3,09€) **for CBC Programme “Montenegro-Albania” for the year 2016.**

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 of Operation Report during issuing Annual Financial Report for 2022. Cost recognised in Annual Financial Report for 2022 for CBC Programme “Montenegro-Albania” 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**

During the audit, auditors performed follow up of implementation of recommendation related to open findings given in previous audits of accounts. The result of performed follow up is that:

1. Audit of Accounts Reports for 2020: out of 2 issued findings, 1 finding is closed and 1 finding is still open.
2. Audit of Accounts Reports for 2021: out of 1 issued finding, 1 finding is still open.

Results of follow up are presented in table below:

N°	Findings identified during the audit of accounts 2021	Status in February 2023	Priority level and new deadline for implementation
1.	<p><b>Deficiency in process of recovery of funds/Lack of identification of irregularities</b></p> <p>Reviewing the Annual Financial Report for 2021 as well as Year-end cut off Report for 2021 it is evident that recovery of funds was recognised for Contract CFCU/MNE/048 in total amount of 12.150,53€. Register of recovery of funds as well as Debtor Ledger is filled-in and entered into the SAP, in accordance with the written procedures.</p> <p>Namely, CFCU detected that for Contract CFCU/MNE/048 total received amount of pre-financing and further pre-financing exceeds the total amount of eligible cost in the amount of 12.150,53€. Total paid amount for pre-financing and further pre-financing is 255.922,03€. Total amount of cost recognised is 243.771,50€.</p> <p>Based on that, CFCU sent to the Contractor:</p> <ol style="list-style-type: none"> <li>1. Notification Letter/Correction of request for recovery of funds on 8<sup>th</sup> September 2021 with deadline for recovery of funds on 8<sup>th</sup> October 2021.</li> <li>2. Notification Letter/Reminder for recovery of funds on 3<sup>rd</sup> November 2021 with new deadline for recovery of funds on 18<sup>th</sup> December 2021, bearing in mind that refund was not carried out until requested deadline.</li> <li>3. Notification Letter/Second reminder for recovery of funds on 27<sup>th</sup> December 2021 with a new deadline for recovery of funds on 26<sup>th</sup> January 2022, bearing in mind that refund was not carried out until requested deadline.</li> </ol> <p>Based on the submitted requested documents and conducted interview, Audit Authority auditors concluded that CFCU hadn't followed procedures in respect to the irregularities. Irregularity Alert Form, Irregularity Register and Conclusion on irregularities were not prepared and weren't uploaded in the Irregularity Management System at the moment of calculation of the refund. Additionally, CFCU didn't initiate judicial proceedings in accordance with the written procedures, due to breach of deadlines.</p>	<p><b><u>Partly implemented.</u></b></p> <p>Conclusion on established irregularity was approved by the Head of the Operating Structure (HoS) on 25<sup>th</sup> March 2022 and verified by the National Authorizing Officer (NAO) on 6<sup>th</sup> April 2022. Irregularity Alert Form, Irregularity Register and Conclusion on irregularities are uploaded in the Irregularity Management System.</p> <p>Taking into consideration above-mentioned, part of finding related to the preparation and submission of documents can be considered closed.</p> <p>Additionally, it is evident that:</p> <ol style="list-style-type: none"> <li>1. CFCU sent Second Reminder Letter on 27<sup>th</sup> December 2021 to the Grant Beneficiary.</li> <li>2. CFCU sent Conclusion on establishing irregularities on 13<sup>th</sup> April 2022 to the relevant authorities.</li> <li>3. Irregularity Register has been updated in accordance with the procedures.</li> </ol> <p>Bearing in mind deadline for recovery of funds insert into the Second Reminder Letter submitted to the Grant Beneficiary as well as the time that has passed since the Conclusion was issued, Audit Authority auditors recommend to the CFCU based on the <i>Guidelines on Irregularity Management point V.6. Calculation of irregularity amount</i> to inform the Office of the Protector of Property and Legal Interest of Montenegro, responsible for defending the state's financial interests against other legal persons, appointed in accordance with the Act on state property rights.</p> <p>Additionally, Audit Authority auditors recommend updating written procedures in respect to the Irregularities and financial management in the manner that:</p> <ul style="list-style-type: none"> <li>- more clearly prescribe procedures with a specific example of what the CFCU should do when a payment has been made and the beneficiary has reported costs that are proclaimed as ineligible</li> </ul>	<p><i>Level of priority:</i></p> <p><b>Intermediate</b></p> <p><i>Body/-ies concerned by the finding:</i></p> <p><b>Head of CFCU, Head of Quality Control Division, Irregularity Officer</b></p> <p><i>New deadline:</i></p> <p><b>1 month</b></p>

		<p>- define the deadline for recovery of fund in the Letters for Reminder for recovery of funds and Second reminder for recovery of funds, which should be shorter than the deadline in the Letter for Correction of request for recovery of funds.</p> <p>Implementation of the recommendation will be monitored in the following period.</p>	
N°	Findings identified during the audit of accounts 2020	Status in February 2023	Priority level and new deadline for implementation
1.	<p><b>Influence on the completeness, accuracy and veracity of the Annual Financial Reports</b></p> <p>Reviewing the Annual Financial Report for 2020 for CBC Programme Montenegro-Albania 2015 it has been determined that financial corrections identified during Audit of operation in amount of 516,07€ have not been used into account during the preparation of AFR for 2020.</p> <p>CFCU did not issue updated Written Approval Letters with modification of the total cost recognised and insert relevant documents into the SAP.</p> <p>Also, NF didn't use into account ineligible expenditure prescribed in the Final Audit Operation Report and did not reduce cost recognised in AFR for 2020 for the amount of determined ineligible expenditures.</p>	<p><b>Not implemented</b></p> <p>During the follow up of audit of operation performed in January 2022 it was determined that out of 516,07€, 56,94€ reported within budget line 5.7.15 and 3,99€ of related indirect costs are considered eligible. In accordance with that amount of 455,14€ (392,52€ EU part and 62,62€ private contribution) is ineligible amount.</p> <p>During the follow up of audit of operation performed in January 2023 it is evident that out of 455,14€:</p> <ol style="list-style-type: none"> <li>1. For CFCU/MNE050 51,40€ were reported within budget line 5.7.15 and 3,60€ of related indirect costs <b>are considered eligible.</b></li> <li>2. For CFCU/MNE/055 91,44€ and 6,397€ of related indirect cost <b>are considered eligible costs.</b></li> <li>3. For CFCU/MNE/055 115,99€ were reported within budget line Human Resources and 20,47€ <b>are considered ineligible.</b></li> <li>4. For CFCU/MNE/055 154,993€ were reported within budget line 4.3 Consumables-office and 10,85€ of related indirect costs <b>are considered ineligible.</b></li> </ol> <p>In accordance with the above-mentioned Albanian GoA members determined that amount of <b>302,303€ (270,983€ EU part and 31,32€ private contribution) is ineligible amount.</b></p> <p>CFCU did not issue updated Written Approval Letters with modification of the total cost recognised and insert relevant documents into the SAP.</p> <p>NF didn't use into account ineligible expenditure prescribed in the Final Audit Operation Report and did not reduce cost</p>	<p><i>Level of priority:</i></p> <p><b>Major</b></p> <p><i>Body/-ies concerned by the finding:</i></p> <p><b>Head of CFCU</b></p> <p><b>Head of FD</b></p> <p><b>Head of NF</b></p> <p><b>Head of NAOSO</b></p> <p><i>Deadline:</i></p> <p><b>Immediately for CFCU</b></p> <p><b>Next Declaration/ Financial Report for DMS</b></p>

		recognised in AFR for 2022 for the amount of determined ineligible expenditures.	
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**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: 3011-2-06-133 from 13<sup>th</sup> February 2023, it is concluded that costs in total amount of 20,55€ (17,46€ EU part and 3,09€ private contribution) for CBC Programme “Montenegro-Albania” for the year 2016 are ineligible. Annual Financial Report (column: Cost recognised and Open pre-financing) has not been corrected for the above-mentioned amount. Therefore, this financial correction must be included in next declaration/financial reports.

Additionally, the audit findings issued within the audit of operation for 2020 and results of follow up with financial correction in totally amount of 302,30€ (270,98€ EU part and 31,32€ private contribution) have influence on the completeness, accuracy and veracity of the Annual Financial Reports for 2022 for CBC Programme “Montenegro-Albania” for the year 2015. Costs recognised and Open pre-financing in the Annual Financial Report for 2022 are not corrected for the amount of determined financial correction.

Based on the audit work performed Audit Authority auditors 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 the *finding N°1* in the *Part 6.2* of this Report related to the CBC Programme “Montenegro-Albania” for the year 2016 and *finding N°1* in the *Part Follow up - Findings identified during the Audit of accounts for 2020* related to the CBC Programme “Montenegro-Albania” for the year 2015.

Correction which should be made are below materiality level of 2% (65.883,49€ for Cost recognised and 27.695,89€ 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 Albanian 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' system audits, audit of operation and audit of accounts. Results of follow up were presented in Audit Recommendations' Status Reports which were submitted to all IPA Bodies in Montenegro and Albania.

A summary of the results of the follow up of findings from previous years' system audits and audits of operation is shown in the tables below:

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

Nº	Findings identified during the System audit 2017	Body	Status in February 2023	New deadline
1.	Deficiency in the MoP Written Procedures	NAOSO	<b><i>Not implemented</i></b> 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	<b><i>Partly implemented</i></b> 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.	3 months



			<p>Recommendation related to back up remains.</p> <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>	
N°	Findings identified during the System audit 2019	Body	Status in February 2023	New deadline
1.	Functioning of Operating Structure	<p>NIPAC</p> <p>MNE</p> <p>NAO</p> <p>HOS</p> <p>MNE</p> <p>CFCU</p>	<p><b><i>Not implemented</i></b></p> <p>Significant progress has been made in previous period related to process of verification of expenditures by CB.</p> <p>Confirmation by Control Body have been submitted for Contracts:</p> <ol style="list-style-type: none"> <li>1. CFCU/MNE/050 for 5<sup>th</sup> report</li> <li>2. CFCU/MNE/051 for 1st and 4<sup>th</sup> reports</li> <li>3. CFCU/MNE/052 for 4<sup>th</sup> report</li> <li>4. CFCU/MNE/054 for 5<sup>th</sup> report</li> </ol> <p>Separate Confirmations have been submitted for Contract CFCU/MNE/055 for 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup> reports.</p> <p>CB carried out verification of all financial reports and expenditures of Albanian project partners previously verified by CFCU and this part of recommendation could be considered closed.</p> <p>However, delays in verification process is still evident in CFCU and CB.</p> <p>Confirmation has not yet been submitted for the Contract CFCU/MNE/055 for 6<sup>th</sup> and 7<sup>th</sup> report.</p> <p>For contract 051 Final Report was sent by beneficiary on 7<sup>th</sup> December 2020. CB did not issued Confirmation until 9 June 2022.</p>	Immediately

			<p>For Contract 052 Final report was sent by beneficiary on 19<sup>th</sup> February 2021. CB did not issued Confirmation until 4<sup>th</sup> February 2022.</p> <p>It is necessary for the Control Body to carry out the verification respecting the procedures and deadlines prescribed in PLCP.</p> <p>CFCU and CB should establish better coordination in order to speed up verification process.</p> <p>Level of priority: <i>Major</i></p>	
2.	Audit trail for travel costs	CFCU CB	<p><b><i>Not implemented</i></b></p> <p>1. Regarding Contract CFCU/MNE/048 cost related to the budget line 2.2.2. – local transportation was rejected in the amount of 4,48€, in accordance with the Audit Authority auditors recommendation.</p> <p>2. Bearing in mind that evidences related to the Contract CFCU/MNE/049 have not submitted during contradictory procedures Audit Authority auditors concluded that <b><u>Ineligible cost is 1.012,02€.</u></b></p> <p>3. Regarding Contract CFCU/MNE/055 costs related to travel (fuel) have been accepted for two participants. Out of approved costs by Control Body (76,50*2=153,00€) acceptable cost is 76,50€.</p> <p><b><u>Ineligible cost is 76,50€.</u></b></p> <p>Final Confirmation of eligibility still has not been submitted by CB.</p> <p>4. Evidences related to the Contracts CFCU/MNE/051 and CFCU/MNE/052 have not submitted during contradictory procedures.</p> <p>Taking into consideration the above-mentioned, part of finding related to the verification of costs have been implemented i.e. part related to the Contract CFCU/MNE/048</p> <p>Level of priority: <i>Major</i></p>	Immediately

N°	Findings identified during the System audit 2020	Body	Status in February 2023	New deadline
	No open findings			
N°	Findings identified during the System audit 2021	Body	Status in February 2023	New deadline
1.	Failure to meet prescribed deadlines	CFCU	<p><b><i>Not implemented</i></b></p> <p>Delays in performing verifications of expenditures by CFCU and CB and payment executions are still evident.</p> <p>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. 3011-1-06-14 from 12<sup>th</sup> January 2023)</p> <p>Level of priority: <i>Major</i></p>	Immediately
2.	No evidence related to the verified costs	CFCU	<p><b><i>Partly implemented</i></b></p> <p>During 2022 CFCU issued final Written Approval for contract CFCU/MNE/051 (on 24<sup>th</sup> August 2022) and for Contract 052 (on 18<sup>th</sup> March 2022). Final payments were not realised but recoveries did due to the difference between paid amount to beneficiaries and amount justified through reports and approved by CFCU as eligible expenditures. Taking into consideration abovementioned part of finding related to contracts 051 and 052 can be considered closed.</p> <p>However, CFCU did not conduct verification of Final Payment for the Contract CFCU/MNE/050 so this part of finding remains open.</p> <p>Level of priority: <i>Major</i></p>	One month
3.	Mistake related to the calculation of the Relevance of the action	CFCU	<p><b><i>Implemented</i></b></p> <p>Reviewing the submitted documents related to the contracting procedures for Grants related to the assessment of full application</p>	

			<p>for 3<sup>rd</sup> Call for Proposals, the Audit Authority auditors concluded that procedures had been conducted in accordance with the PRAG rules and Guidelines for Applicants.</p> <p>Full Application Evaluation Grids have been filled in and signed by independent assessors. Composite table for Full Applications has been filled-in (with calculation of Average relevance for second stage) by CFCU Contract manager.</p> <p>It is evident that calculation in the Full Application Evaluation Grids (for signed contracts) have been harmonised with the Evaluation Report (Step 2 and Step 3) and calculation presented into the Composite table for Full Applications.</p> <p>The finding is closed.</p>	
4.	Discrepancy between approved amount in the Grant Contracts Award Notice table and approved amount in the signed Contract	CFCU	<p><b><i>Partly implemented</i></b></p> <p>Grant Contract Award Notice and Global Endorsement List have been corrected in accordance with the recommendations. Taking into consideration above-mentioned part of finding related to the corrections of documents can be considered closed.</p> <p>However, auditors checked CFCU website and concluded that there was no proof that Grant Contracts Award Notice was published on the CFCU website.</p> <p>Additionally, Audit Authority auditors checked JTS website and concluded that corrected Grant Contracts Award Notice had not been published.</p> <p>Part of finding related to the publishing of Grant Contracts Award Notice remains open.</p> <p>Level of priority: <i>Minor</i></p>	One month
5.	Technical errors observed in process of control and supervision of grant beneficiaries' financial reports and payment requests	CFCU	<p><b><i>Partly implemented</i></b></p> <p>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</p>	3 months

			<p>Checklists by FC1 and FC2 can be considered closed.</p> <p>It is evident that Head of CFCU still doesn't approve and sign Checklists so this part of finding remains open.</p> <p>Level of priority: <i>Intermediate</i></p>	
Nº	Findings identified during the System audit 2022	Body	Status in February 2023	New deadline
1.	Failure to meet prescribed deadlines	CFCU CB	<p><b><i>Not implemented</i></b></p> <p>Delays in performing verifications of expenditures by CFCU and CB and payment executions are still evident.</p> <p>Level of priority: <i>Major</i></p>	Immediately
2.	No evidence related to the verification of payment request	CFCU	<p><b><i>Not implemented</i></b></p> <p>Based on the submitted evidence for contract CFCU/MNE/159 it is evident that CFCU informally informed Grant Beneficiary about approved payment, which is not in accordance with the procedures.</p> <p>Namely, Checklist for Grant Contracts for Interim Payments and Notification Letter to the Grant Beneficiary about status of its payment request have not been prepared and sent to the Grant beneficiary.</p> <p>CFCU should perform procedures related to the verification, i.e. to fulfil Checklist for interim Payment regardless of status of payment in order to ensure the appropriate audit trail.</p> <p>Level of priority: <i>Intermediate</i></p>	Immediately
3.	Un-respected procedures related to the planning of funds	CFCU	<p><b><i>Implemented</i></b></p> <p>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.</p> <p>Procedures related to the planning of funds have been respected.</p> <p>Finding is closed.</p>	

Out of 12 findings which remained open after the previous Annual Audit Activity Report, 2 of them are closed during the follow up.

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

Nº	Findings identified during the System audits 2017 and 2018	Body	Status in February 2023	New deadline
	No open findings			
Nº	Findings identified during the System audit 2019	Body	Status in February 2023	New deadline
1.	Functioning of Operating Structure	NIPAC ALB HOS ALB CB	<p><b>Not implemented</b></p> <p>Significant progress has been made in previous period related to process of verification of expenditures by CB.</p> <p>Confirmation by Control Body have been submitted for Contracts:</p> <ol style="list-style-type: none"> <li>1. CFCU/MNE/050 for 5<sup>th</sup> report</li> <li>2. CFCU/MNE/051 for 1<sup>st</sup> and 4<sup>th</sup> reports</li> <li>3. CFCU/MNE/052 for 4<sup>th</sup> report</li> <li>4. CFCU/MNE/054 for 5<sup>th</sup> report</li> </ol> <p>Separate Confirmations have been submitted for Contract CFCU/MNE/055 for 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup> reports.</p> <p>CB carried out verification of all financial reports and expenditures of Albanian project partners previously verified by CFCU and this part of recommendation could be considered closed.</p> <p>However, delays in verification process is still evident in CFCU and CB.</p> <p>Confirmation has not yet been submitted for the Contract CFCU/MNE/055 for 6<sup>th</sup> report.</p> <p>For contract 051 Final Report was sent by beneficiary on 7<sup>th</sup> December 2020. CB did not issued Confirmation until 9 June 2022.</p> <p>For Contract 052 Final report was sent by beneficiary on 19<sup>th</sup> February 2021. CB did not issued Confirmation until 4<sup>th</sup> February 2022.</p>	Immediately

			<p>It is necessary for the Control Body to carry out the verification respecting the procedures and deadlines prescribed in PLCP.</p> <p>CFCU and CB should establish better coordination in order to speed up verification process.</p> <p>Level of priority: <i>Major</i></p>	
<b>N°</b>	<b>Findings identified during the System audit 2020</b>	<b>Body</b>	<b>Status in February 2023</b>	<b>New deadline</b>
	No open findings			
<b>N°</b>	<b>Findings identified during the System audit 2021</b>	<b>Body</b>	<b>Status in February 2023</b>	<b>New deadline</b>
1.	On-the-spot verifications not reported to the CBC Body, HOS office, JTS and Grant Beneficiary	CB	<p><b><i>Implemented</i></b></p> <p>For the contract 052 “Local cuisine as tourism offer of cross-border region”, the CB sent the OTSV Report to CBC Body and HOS on 29.09.2022.</p> <p>For the contract 048 “The Feminine Side of Quality”, the CB sent the OTSV Report to CBC Body and HOS on 29.09.2022.</p> <p>The finding has been acknowledged by the Control body and the recommendation has been followed for all contracts. The same procedure will be followed by the CB body of Albania for the contracts under the Second Call of the CBC MNE-AL.</p> <p>Considering the CB evidences the finding is closed.</p>	
<b>N°</b>	<b>Findings identified during the System audit 2022</b>	<b>Body</b>	<b>Status in February 2023</b>	<b>New deadline</b>
	No open findings			

Out of 2 findings which remained open after the previous Annual Audit Activity Report, one of them is closed during the follow up.

*Status of audit of operation findings:*

Nº	Findings identified during the Audit of operation 2019	Body	Status in February 2023	New deadline
1.	Procedures for control of eligibility of expenditure	CFCU	<p><b><i>Not implemented</i></b></p> <p>Controllers do not perform administrative verification of fulfilment of criterion relating to the accounting. They confirmed the fulfilment of this criterion in administrative control check list but without adequate supporting documents related to accounting entries.</p> <p>Accounting evidence was checked only during the on the spot control which was not performed before approval of each Interim report.</p> <p>Level of priority: <i>Intermediate</i></p>	Until the approval of the next/Final Progress Financial Report
Nº	Findings identified during the Audit of operation 2020	Body	Status in February 2023	New deadline
1.	Expenditure verification not performed by Control Body of Albania	CB	<p><b><i>Implemented</i></b></p> <p>Control Body of Albania has received all the supporting documents and has performed control of the cost of the Archaeology Excavation and Works Coordinator, Centre for Albanian Studies, for the contract CFCU/MNE/055 in order to verify the expenditure declared relates to the eligible period.</p> <p>Taking into consideration all the issued Certificates and the supporting documents provided by Control Body, we consider this finding closed and no further action is required.</p>	
2.	Insufficient monitoring of the activities of the contract by CB of CFCU of Albania	CB	<p><b><i>Implemented</i></b></p> <p>During audit process for the contract 055 “Augmenting Cooperation – from Christina Antiquities towards Enhanced Tourism” it was noted insufficiency in the controls relating to outputs performed by Albanian CB. For all outputs of the audit period, executed by</p>	



			<p>the experts, it is not clear if they are fulfilled as foreseen by the contract because the column “Description of the tasks” in the time – sheets does not indicate the activities performed.</p> <p>During the follow up it was determined that comments have been reflected in accordance with the relevant recommendations on the completion of the timesheets for other reporting periods.</p> <p>The appropriately fulfilled timesheets from the third reporting period and on, for each project team member, are provided as evidence.</p> <p>Taking into consideration the supporting documents provided by the Control Body, the finding is considered closed and no further action is required.</p>	
3.	<p>Ineligible expenditure for funding in the period covered by the II Interim Report and ineligible expenditures in respect to the activity 5.7.15 - Insurance for participants for trainings and exercise in Albania</p> <p>(Project: CFCU/MNE/050 “Disasters do not know borders”)</p>	CB	<p><b>Implemented</b></p> <p>During the audit it was determined that amount of 51,40 € and 3,60 € of related indirect costs should be reported as cost recognised in the next period when it is incurred, paid and accepted and corresponds to actual costs proven by supporting documents.</p> <p>The finding is closed taking into consideration that:</p> <ul style="list-style-type: none"> <li>- the finding do not have any financial impact on the overall project perspective, it consists on the presentation of the financial data in the next reporting period within the same financial year</li> <li>-the Control Body has not validated twice the above mentioned expenditures that could generate ineligible expenditure,</li> <li>- AA of Albania has not identified any similar situation during its audit missions.</li> </ul> <p>For the activity 5.7.15 - Insurance for participants for trainings and exercise in Albania, AA has a confirmation that this cost has been verified and approved by</p>	

			CFCU Montenegro. On this regard amounts of 56,94 € and 3,99 € of related indirect costs are not considered ineligible.	
4.	Ineligible Human Resources expenditure (Project: CFCU/MNE/055 “Augmenting Cooperation – from Christina Antiquities Towards Enhanced Tourism”)	CB	<b>Implemented</b>  This recommendation is fulfilled by CB. As evidence the new certificates are provided issued on 14.07.2022. for the first and second reporting period in which ineligible expenditures in amount of 136,46€ (EU part: 115,99€; other sources: 20,47€) were deducted. The finding is closed taking into consideration the provided evidences from Control Body.	
5.	Ineligible expenditure related to point 4.3 Consumables-office (Project: CFCU/MNE/055 “Augmenting Cooperation – from Christina Antiquities Towards Enhanced Tourism”)	CB	<b>Not implemented</b>  Taking into consideration the documents provided by the Control Body, the expenditure regarding the invoice no.38 date 17.01.2019 in the amount of 91,44€ is considered eligible costs.  The remaining ineligible expenditure is: 154,993€  The recalculated indirect is 10,85€. Total ineligible expenditure is 165,843.  The deduction of identified ineligible expenditure will be subject of verification of future audits.  Level of priority: <i>Intermediate</i>	Next reporting period

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-Albania 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-Albania 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 MNE-ALB 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 accounts, we identified that financial corrections determined during the audit of operation performed in 2022 in amount of 20,55 € (17,46 € EU part and 3,09 € private contribution), have not been included in financials statement for 2022, i.e. annual accounts (Column: Cost recognized and Open pre-financing) have not been corrected for these amounts. Therefore, this financial correction must be included in next declaration/financial reports.

# 10. TABLE FOR DECLARED EXPENDITURE AND SAMPLE AUDITS

			A	B		C	D	E		F	G	H=F-G	GI	JH
Fund	Reference (CCI)	Programme	Expenditure declared to the Commission in reference to the year	Expenditure in reference to the financial year audited for the random sample		Total number of units in the population	Number of sampling units for the random sample	Amount and percentage (error rate) of irregular expenditure in random sample		Total projected error rate	Corrections implemented as a result of the total error rate	Residual total error rate	Other expenditure audited	Amount of irregular expenditure in other expenditure sample
				Amount	%			Amount	%	%				
IPA	C (2014) 9352 2014/037-593	CBC Programme Montenegro-Albania 2014	/	/	/	/	/	/	/	/	/	/	/	/
IPA	C (2014) 9352 2015/038-158	CBC Programme Montenegro-Albania 2015	/	/	/	/	/	/	/	/	/	/	/	/
IPA	C (2014) 9352 2016/038-174 2017/ 038-175	CBC Programme Montenegro-Albania 2016-2017	443.936,70 €	316.332,75€	71,26%	7	4	20,55 €	0,006%	0,006%	0,00	0,006%	N.a	N.a
IPA	C (2014) 9352 2018/041-468 2019/041-470 2020/041-471	CBC Programme Montenegro-Albania 2018-2020	/	/	/	/	/	/	/	/	/	/	/	/