



**MONTENEGRO**  
**AUDIT AUTHORITY**

No:3011-4-06-188

Date: 15<sup>th</sup> March 2024

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

FOR THE PERIOD FROM 01 JANUARY UNTIL  
31 DECEMBER 2023

Podgorica, March 2024

## TABLE OF CONTENT

<b>1. INTRODUCTION</b> .....	<b>7</b>
<b>1.1 Details of the responsible audit authority and other bodies that have been involved in preparing the report</b> .....	<b>7</b>
<b>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)</b> .....	<b>7</b>
<b>1.3 Identification of the sector/policy area(s) covered by the report and of its/their operating structure and management structure</b> .....	<b>8</b>
<b>1.4 Description of the steps taken to prepare the report and to draw the audit opinion</b> .....	<b>10</b>
<b>2. SUBSTANTIAL CHANGES IN MANAGEMENT AND CONTROL SYSTEM</b> .....	<b>11</b>
<b>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</b> .....	<b>11</b>
<b>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.</b> .....	<b>13</b>
<b>3. CHANGES TO THE AUDIT STRATEGY</b> .....	<b>13</b>
<b>3.1. Details of any changes that have been made to the audit strategy or are proposed, and of the reasons for them. In particular, indicate any change to the sampling method used for the audit of operations (see paragraph 5 below).</b> .....	<b>13</b>
<b>4. SYSTEMS AUDITS</b> .....	<b>13</b>
<b>4.1 Details of the bodies that have carried out systems audits, including the audit authority itself</b> .....	<b>13</b>
<b>4.2 Summary table of the audits carried out</b> .....	<b>14</b>
<b>4.3 Description of the basis for selection of the audits in the context of the audit strategy</b> .....	<b>18</b>
<b>4.4 Principal findings / Follow-up / Corrective measures applied or recommended and Conclusion</b> .....	<b>18</b>
<b>4.5 Description (where applicable) of specific deficiencies related to the management of financial instruments, detected during systems audits and of the follow-up given by the national authorities to remedy these shortcomings.</b> .....	<b>21</b>
<b>4.6 Level of assurance obtained following the system audits and justification.</b> .....	<b>21</b>
<b>5. AUDITS OF SAMPLES OF TRANSACTIONS</b> .....	<b>21</b>
<b>5.1 Authorities/bodies that carried out the sample audits, including the audit authority</b> .....	<b>22</b>

<b>5.2. Description of the sampling methodology applied and information whether the methodology is in accordance with the audit strategy .....</b>	<b>22</b>
<b>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 .....</b>	<b>24</b>
<b>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</b>	<b>24</b>
<b>5.5. Where there are negative items, confirmation that they have been treated as a separate population .....</b>	<b>27</b>
<b>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.....</b>	<b>27</b>
<b>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).....</b>	<b>27</b>
<b>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 .....</b>	<b>28</b>
<b>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 .....</b>	<b>34</b>
<b>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 .....</b>	<b>34</b>
<b>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</b>	

audits of operations, including flat rate or extrapolated corrections. ....	34
5.12. Residual total error rate following the implementation of the above-mentioned corrections and significance for the audit opinion.....	34
5.13. Information on the results of the audit of the complementary (e.g. risk based) sample, if any.....	35
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	35
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.....	35
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.....	35
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.....	35
5.18. Conclusions drawn from the results of the audits with regard to the effectiveness of the management and control system.....	35
<b>6. AUDITS OF THE ANNUAL FINANCIAL REPORTS OR STATEMENTS/ANNUAL ACCOUNTS.....</b>	<b>36</b>
6.1 Indication of the authorities/bodies that have carried out audits of the annual financial reports or statements/annual accounts.....	36
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 .....	36
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. ....	41
6.4 Indication of whether any problems identified were considered to be systemic in nature, and the measures taken. ....	43
<b>7. FOLLOW-UP OF PREVIOUS YEARS' AUDIT ACTIVITY .....</b>	<b>43</b>
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. ....	43
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 .....	57
<b>8. OTHER INFORMATION .....</b>	<b>57</b>
<b>8.1. Information on reported fraud and suspicions of fraud, together with measures taken</b>	<b>57</b>
<b>8.2. Subsequent events occurred after the submission of the declaration of expenditure and financial statements and before the transmission of the annual activity report .....</b>	<b>57</b>
Not applicable.....	57
<b>8.3 Any other information that the audit authority considers relevant and important to communicate to the Commission .....</b>	<b>57</b>
<b>9. OVERALL LEVEL OF ASSURANCE.....</b>	<b>57</b>
<b>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.....</b>	<b>57</b>
<b>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. ....</b>	<b>58</b>
<b>9.3 Assessment of the corrective action necessary both from a system and financial perspective.....</b>	<b>58</b>
<b>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.....</b>	<b>58</b>
<b>10. TABLE FOR DECLARED EXPENDITURE AND SAMPLE AUDITS .....</b>	<b>58</b>

## List of abbreviations

AA	Audit Authority of Montenegro
AAAR	Annual Audit Activity Report
AAO	Annual Audit Opinion
AMD	Annual Management Declaration
CAP	Annual Country Action Programme for Montenegro
CFCU	Central Finance and Contracting Unit
DMS	Directorate for Management Structure
EC	European Commission
EU	European Union
EUD	Delegation of the European Union
IA	Implementing Agency
ICFR	Internal Control Framework Requirement
IPA II	Instrument for Pre-Accession Assistance II perspective
IPA	Instrument for Pre-Accession Assistance
LTEC	Long Term Employment Contract
MCSS	Management, Control and Supervision System
MF	Ministry of Finance
MESPU	Ministry of Ecology Spatial Planning and Urbanism
MoP	Manual of Procedures
NAO SO	NAO Support Office
NAO	National Authorising Officer
NFD	National Fund Division
NIPAC	National IPA Coordinator
OG MNE	Official Gazette of Montenegro
OS	Operating Structure
PIU	Project Implementation Units
CPA	Capital Projects Administration
TEC	Temporary Employment Contract
WLA	Work Load Analysis

## ➤ INTRODUCTION

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

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

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

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

The Audit Authority is responsible for verifying:

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

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

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

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

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

this Annual Audit Activity Report is financial year and covers the period from 1 January to 31 December 2023.

In 2023 the Audit Authority carried out system audit for CAP 2016, CAP 2017, CAP 2018 and CAP 2020. In the period covered by this report, the AA conducted audits of all declarations on expenditure declared by NAO to EC for those Programmes (the AA conducts audit of operation on expenditure declared by NAO to the EC through the declaration on expenditure). The Audit Authority conducted audits of operations in 2023 for CAP 2016 (it is declared 4,530,600.14€), for CAP 2017 (it is declared 488,408.54€), for CAP 2018 (it is declared 222,456.42€) and for CAP 2020 (it is declared 344,023.10€).

As a part of a system audit in December 2023 – January 2024 the AA performed follow-up of the findings and recommendations given in the course of previous audits. In the period February-March 2024 AA conducted also Audit of accounts for CAP 2014, CAP 2016, CAP 2017, CAP 2018 and CAP 2020.

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

The report covers Annual Country Action Programme for Montenegro for the year 2014 (No C 2014/032-022 and 2014/032-803), Annual Country Action Programme for Montenegro for the year 2016 (No C (2016/037-896) Annual Country Action Programme for Montenegro for the year 2017 (No C (2017/040-216; 2017/039-816), Annual Country Action Programme for Montenegro for the year 2018 (No (CRIS) IPA/2018/040-218 and IPA/2018-040-220) and Annual Country Action Programme for Montenegro for the year 2020 (No (CRIS): IPA/2020/042-142 and IPA/2020/042-145 .

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

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

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

By signing Addendum of the Financing Agreement for the Annual Country Action Programme for Montenegro (Objective 1 - part 1 and Objective 2- part 1) 2014/032-022 and 2014/032-803, for the year 2014 on 30/07/2018, the budget for Action 12 "Rehabilitation of the railway section Kos-Trebešica" is increased by 1,046,068.26 (national co-financing).

According to that, the total estimated cost of Programme CAP 2014 is EUR 25,561,408.26 and the maximum Union contribution to this Programme is set at EUR 21,288,220. Closing of the Program CAP 2014 will be in 2024.

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



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

By signing Addendum to the Financing Agreement for the Annual Country Action Programme for Montenegro for the year 2016 on 31/07/2020 CAP 2016 allocates EUR 11,385,975 for capacity building and acquis related activities for the sector Environment and Climate Action and EUR 6,288,900 for strengthening the Competitiveness and innovation sector of Montenegro. Within the education employment and social policies sector, EUR 5,334,025 is allocated for Support to COVID-19 crisis response in Montenegro, following the outbreak of worldwide COVID-19 pandemic (Detect Management).

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

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

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

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

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

By signing Addendum N°1 to the Financing Agreement for the Annual Country Action Programme for Montenegro for the year 2018 on 30/11/2020 CAP 2018 allocates the complete amount of assistance of 9.5 million EUR which was approved for the sector Agriculture and Rural Development through the approved Financing Agreement. Funds will be used for an increase of support for the area of public health, i.e. for the construction of the building for infectious disease clinic and Dermatovenerology, as well as for procurement of equipment for the network of microbiology laboratories throughout Montenegro.

By signing Addendum N°2 to the Financing Agreement for the Annual Country Action Programme for Montenegro for the year 2018 on 22/02/2021 the amendment of the result 7 under action *Strengthening of quality and approach to health and social services* is foreseen which refers to procurement of the device which conducts simultaneous analyses of a great number of respiratory samples, in the amount of 800,000 EUR.

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

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

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

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

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

Tabular view is shown in the table below:

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

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

The AAAR was prepared as a result of audit activities carried out during the 2023. During 2023 the AA carried out system audit for CAP 2016, CAP 2017, CAP 2018 and CAP 2020 and audits

of operations for CAP 2016, for CAP 2017, for CAP 2018 and for CAP 2020. During performance of system audit in 2023, Audit Authority performed follow-up of the findings and recommendations given in the course of previous audits. Results of follow-up are covered in the system audit report.

In the period from January – March 2024 AA performed audit of the annual financial reports for 2023.

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

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

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

## **2. SUBSTANTIAL CHANGES IN MANAGEMENT AND CONTROL SYSTEM**

AA regularly monitored and gathered information on changes in the Management, Control and Supervision System (MCSS) and we reported on significant changes in MCSS in our AAARs. In our last AAAR we reported about the significant changes in the Management, Control and Supervision System (MCSS) which occurred until the end of December 2022.

In this AAAR we described significant personal and organizational changes occurred in the period from 1<sup>st</sup> January to 31<sup>st</sup> December 2023.

### **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 2023 the NAO/Deputy NAO informed the European Commission and Audit Authority about substantial and planned changes in the system.

#### ***Personal changes:***

- *Ms Ana Raičević, appointed as State Secretary in the Ministry of Finance, on the Government session held on January 20<sup>th</sup> 2023 has been designated to perform the function of the National Authorizing Officer/NAO. Change occurred on Government session held on January 20<sup>th</sup> 2023. NAO informed European Commission and Audit Authority on this personal change on 3<sup>th</sup> February 2023. (Letter No: 05-908/23-60/1).*
- *Ms Milena Žižić has been designated to perform the function of the National IPA Coordinator. Change occurred on Government session held on January 20<sup>th</sup> 2023. NAO*

- informed European Commission and Audit Authority on this personal change on 3<sup>th</sup> February 2023. (Letter No: 05-908/23-60/1).*
- *Mr Naim Gjokaj has been appointed to the position of the Head of Sector for implementation of IPA projects as acting Deputy Director of the Capital Projects Administration. Change occurred on Government session held on February 24<sup>th</sup> 2023. NAO informed European Commission and Audit Authority on this personal change on 9<sup>th</sup> June 2023. (Letter No: 05-908/23-285/1).*
  - *Ms Vida Ristić has been appointed to the position of SPO/ General Director of Directorate for Projects and Information Systems within Ministry of Ecology, Spatial Planning and Urbanism. Change occurred on Government session held on April 6<sup>th</sup> 2023. NAO informed European Commission and Audit Authority on this personal change on 9<sup>th</sup> June 2023. (Letter No: 05-908/23-285/1).*
  - *Ms Vida Ristić has been resigned from the position of SPO/General Director of Directorate for Projects and Information Systems within Ministry of Ecology, Spatial Planning and Urbanism. Change occurred on Government session held on October 3<sup>th</sup> 2023.*
  - *Ms Milena Žižić has left the position of the NIPAC within MEA. Change occurred on October 31<sup>th</sup> 2023. NAO informed European Commission and Audit Authority on this personal change on 27<sup>th</sup> February 2024. (Letter No: 08-908/24-95/1).*
  - *Ms Jelena Davidović left the position of Director General of IA CFCU. Change occurred on Government session held on December 14<sup>th</sup> 2023. NAO informed European Commission and Audit Authority on this personal change on 27<sup>th</sup> February 2024. (Letter No: 08-908/24-95/1).*
  - *Mr Naim Gjokaj has left the position of the Head of the Sector for the realization of IPA project within IA CPA. Change occurred in November 2023. NAO informed European Commission and Audit Authority on this personal change on 27<sup>th</sup> February 2024. (Letter No: 08-908/24-95/1).*
  - *Mr Bojan Vujović has been appointed as Acting Director General of Directorate for Coordination of EU financial assistance/Deputy NIPAC. Change occurred by Government session held on 28 December 2023. NAO informed European Commission and Audit Authority on this personal change on 27<sup>th</sup> February 2024. (Letter No: 08-908/24-95/1).*

### **Organizational changes:**

*With the formation of the new Government of Montenegro, the Decree on the organisation and manner of work of the state administration has been adopted on October 31<sup>th</sup> 2023. The mentioned Decree has significantly changed the organization of the entire state administration, reflecting on IPA units within reorganized ministries. Change occurred on October 31<sup>th</sup> 2023.*

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

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

The changes that occurred in MCSS in 2023 do not have an impact on the audit work.

### **3. CHANGES TO THE AUDIT STRATEGY**

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

Audit Strategy 2023–2025 for the Annual Country Action Programme for Montenegro for the year 2014, Annual Country Action Programme for Montenegro for the year 2016, Annual Country Action Programme for Montenegro for the year 2017, Annual Country Action Programme for Montenegro for the year 2018 and Annual Country Action Programme for Montenegro for the year 2020 was prepared in November 2022. The Auditor General of Audit Authority approved it and sent it to the European Commission, with a copy to National Authorising Officer, on November 30<sup>th</sup> 2022.

There were no changes in the audit strategy.

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

Not applicable.

### **4. SYSTEMS AUDITS**

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

In accordance with the Audit Strategy 2023-2025 for the IPA II 2014-2020 for the Annual Country Action Programme for Montenegro for the year 2014 (hereinafter: CAP 2014), Annual Country Action Programme for Montenegro for the year 2016 (hereinafter: CAP 2016), Annual Country Action Programme for Montenegro for the year 2017 (hereinafter: CAP 2017), Annual Country Action Programme for Montenegro for the year 2018 (hereinafter: CAP 2018) and Annual Country Action Programme for Montenegro for the year 2020 (hereinafter: CAP 2020) approved by Auditor General and submitted to EC on November 30<sup>th</sup> 2022, the AA of Montenegro conducted an audit of the management, control and supervision system (hereinafter MCSS) established in the bodies of Managing and Operating structure: CFCU

(Implementing Agency), CPA (Implementing Agency), National Fund Division (NFD)/ NAO /NAOSO and NIPAC Office.

## 4.2 Summary table of the audits carried out

During the strategic audit planning (Audit Strategy 2023-2025 for the IPA II 2014-2020 for the CAP 2016, CAP 2017, CAP 2018 and CAP 2020 (November 2022) for the purpose of defining audit areas the Audit Authority performed risk assessment for each body of CAP 2016, CAP 2017, CAP 2018 and CAP 2020 at the key requirement/process/function level (further: process level). We identified and assessed issues and processes that are significant for the audit and that could be common for all or several bodies that are participating in management and implementation of programme.

Based on results of risk assessment performed during preparation of the Audit Strategy 2023-2025 we decided that during 2023 bodies whose categorized risk score is medium will be audited. According to the above mentioned, audit included the following bodies: CFCU (Implementing Agency), CPA (Implementing Agency), National Fund Division (NFD)/ NAO /NAOSO and NIPAC Office, and with the general audit objective to verify the effective and efficient functioning of the management, control and supervision system.

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

- CFCU: Control Activities.
- CPA: Control Activities.
- NFD: Control Activities.
- NAO/NAOSO: Monitoring of Internal Control Framework.
- NIPAC Office: Monitoring of Internal Control Framework.

Also, in Audit strategy 2023-2025 we stated that during the individual audit engagement planning auditors would define the key functions/processes within each key requirement which will be encompassed by the appropriate audit activities in particular body in 2023. The scope of each individual audit will depend on level of implementation of Programmes at the time of audit performing. In addition, follow-up of recommendations from the previous system audits is going to be conducted within the planned system audits for 2023.

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

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

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

➤ CFCU/IA: Control Activities

- 3(a) Selection and development of control activities
- 3(c) Policies and procedures related to control activities

➤ CPA/IA: Control Activities

- 3(a) Selection and development of control activities
- 3(c) Policies and procedures related to control activities

➤ NFD: Control Activities

- 3(a) Selection and development of control activities
- 3(c) Policies and procedures related to control activities

➤ NAO and NAO Support Office: Monitoring of Internal Control Framework

- 5 (a) On-going and specific monitoring
- 5 (b) Assessment, recording and communication of internal control deficiencies

➤ NIPAC Office: Monitoring of Internal Control Framework

- 5 (a) On-going and specific monitoring
- 5 (b) Assessment, recording and communication of internal control deficiencies.

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

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



## Summary of the audit carried out:

Audit period	Programme (CCI and title)	Audit Body	Audited Body(ies)	Date of the audit	Scope of the audit	Principal findings and conclusions	Problems of systemic character and measures taken	Estimated financial impact (if applicable)	State of follow-up (closed/or not)
01.01.2023-31.12.2023	Annual Country Action Programme for Montenegro for the year 2016 – C (2016)8226  Annual Country Action Programme for Montenegro for the year 2017 – C (2017/040-216;2017/039-816)  Annual Country Action Programme for Montenegro for the year 2018 (No	Audit Authority of Montenegro	CPA	June to December 2023	3a (i) Before a transaction is authorised, the aspects of this transaction have to be verified by at least one member of staff other than the one(s) who initiated the transaction. For the same file the same person cannot do initiation and verification (four eyes principle). 3a (xiii) Segregation of duties ensuring that different tasks in the life of the same operation are allocated to different staff, to ensure automatic cross-checking controls	Inadequate internal organization of Finance and Accounting Unit  <i>IFCR 3(a)</i>  For details please see further below the section 4.4 of this AAAR.	n/a	n/a	Open



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

(CRIS) IPA/2018/04 0-218 and IPA/2018- 040-220)  Annual Country Action Programme for Montenegro for the year 2020 (No (CRIS) IPA/2020/04 2-142 and IPA/2020- 042-145)	CPA	June to December 2023	3a (ix) Accounting procedures ensuring complete, accurate and transparent accounting following internationally accepted accounting principles	Failure to made accounting record  ICFR: 3(a);  For details please see further below the section 4.4 of this AAAR.	n/a	n/a	Closed
	NFD/CPA/ CFCU	June to December 2023	3a (x) Reconciliation procedures ensuring that wherever required accounting balances are reconciled against third-party information	Reconciliation procedures  ICFR: 3(a);  For details please see further below the section 4.4 of this AAAR	n/a	n/a	Open

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

During the strategic audit planning (Audit Strategy 2023-2025 for the IPA II 2014-2020 for the CAP 2016, CAP 2017, CAP 2018 and CAP 2020) for the purpose of defining audit areas the Audit Authority performed risk assessment for each body of those programmes at the key requirement/process/function level (further: process level). We identified and assessed issues and processes that are significant for the audit and that could be common for all or several bodies that are participating in management and implementation of programme.

Based on results of risk assessment performed during preparation of the Audit Strategy 2023-2025 we decided that during 2023 bodies whose categorized risk score is medium will be audited. According to the above mentioned, audit included the following bodies: CFCU (IA), CPA (IA), NFD, NAO/NAOSO and NIPAC Office and with the general audit objective to verify the effective and efficient functioning of the management, control and supervision system.

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

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

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

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

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

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

➤ ***Finding N° 1: Reconciliation procedures***

***Level of priority: Minor***

***ICF requirement: 3a (x) Reconciliation procedures ensuring that wherever required accounting balances are reconciled against third-party information***

***Body/-ies concerned by the finding: DMS, CPA and CFCU***

Based on the insight into submitted documentation for reconciliations procedures and sample form IAs and DMS, reconciliations were performed adequately and timely.

Nevertheless, some minor deficiencies were determined.

- Implementing Agencies (CFCU and CPA) do not split the reconciliation data per budget lines within the same FA, during monthly reconciliations, and it is not clear to which budget line data refers.

- DMS used the same Annex 8 – Checklists for reconciliation – MoP – Chapter Accounting, for more than one FA.

In line with the principles of sound financial management, the reporting under the programme, including the financial data, should be accurate and reliable. When one Financing Agreement covers several objectives, the reporting should be done per objective as the different objectives are financed by different funding sources (i.e. coming from different budget lines). Therefore, accurate financial data at the level of objective should be provided by the Management and Operating Structure.

***Recommendations:***

- We recommend to IAs, in future, to split the data per FA and budget lines while preparing reconciliation documents.

- We recommend to DMS, in future, to prepare separate CLs per FA and budget lines while preparing reconciliation documents.

➤ ***Finding No 2: Inadequate internal organization of Finance and Accounting Unit***

***Level of priority: Intermediate***

***ICF requirement(s):***

***3a (i) Before a transaction is authorised, the aspects of this transaction have to be verified by at least one member of staff other than the one(s) who initiated the transaction. For the same file the same person cannot do initiation and verification (four eyes principle).***

***3a (xiii) Segregation of duties ensuring that different tasks in the life of the same operation are allocated to different staff, to ensure automatic cross-checking controls***  
***Body/-ies concerned by the finding: CPA***

Based on the insight into submitted documentation during the audit performed, we determined the following:

- In the Rulebook on internal organization and systematization of the CPA envisaged number of work post in the Finance and Accounting Unit is three: Head of Unit, Financial controller and accountant. Having in mind overall responsibilities of CPA as IA related to IPA perspective II as well as IBFM to IPA perspective III, we consider that envisaged number of work post for Financial

controller is not enough, which can have a great impact on the quality and continuity of business operations, e.g. adequate substitution policy cannot be ensured.

- Additionally, pursuant to Exception from the standard procedure exclusion of financial controller 2 was introduced in the financial department of the CPA. Deputy of NAO approved this exception in March 2022. According to the MoP procedures, in case of exceptions due to procedure failure/incompleteness, the procedure for modification of the MOP should apply. In urgent and duly justified cases, when there is not enough time for the MOP modification and the activity/process needs to be approved without any delay (e.g. deadline etc.), the procedure for requesting and recording exceptions should be followed and then the relevant part of the MOP shall be modified accordingly.

Since this exception was approved in March 2022, we think that there was enough time to adjust procedures.

Also, we consider that exception related to exclusion of controls of FC and just verification and approval of performed controls, without comments or justification by the Head of FD / Head of Sector for the realization of IPA project/Head of IA CPA can have an impact on the quality of the performed controls.

- Additionally, the position of the Head of the Sector for the realisation of IPA projects is currently vacant.

***Recommendation:***

- We recommend ensuring the position of at least one more Financial Controller in the Rulebook on Internal Organization and Systematization and performing the recruitment procedure.
- We recommend filling the vacancy position of the Head of the Sector for the realization of IPA projects.

➤ ***Finding N° 3: Failure to made accounting record***

***Level of priority: Intermediate***

***ICF requirement(s): 3a (ix) Accounting procedures ensuring complete, accurate and transparent accounting following internationally accepted accounting principles***

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

Based on the insight into submitted documentation during the audit performed, we determined the following:

For the contract Reconstruction works of the Cross-border railway station in Bijelo Polje - PWA/MNE/IPA II/BPMD/01-908/21-5514/1 the Addendum no. 1 which increasing the value of the contract was signed on 19.04.2023.

The signed Addendum was not entered into accounting system.

**Recommendation:**

We recommend to CPA to enter the Addendum no.1 in the accounting software.

The aforementioned addendum is included in the accounting software. We consider this finding *closed*.

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

Not applicable.

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

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

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

<i>IPA Body</i>	<i>Works well. No or only minor improvement(s) are needed</i>	<i>Works, but some are improvement(s) needed</i>	<i>Works partially; substantial improvement(s) are needed</i>	<i>Essentially does not work</i>
<i>NAO end NAO Support Office</i>		X		
<i>NFD</i>		X		
<i>CFCU</i>		X		
<i>CPA</i>		X		
<i>NIPAC Offis</i>		X		

**5. AUDITS OF SAMPLES OF TRANSACTIONS**

In the period covered by this report, the AA conducted audits of all declarations on expenditure declared by NAO to EC for those Programmes (the AA conducts audit of operation on expenditure declared by NAO to the EC through the declaration on expenditure). The Audit Authority conducted four audits of operations in 2023 namely for CAP 2016 (IPA/2016/037-896), for CAP 2017 (IPA/2017/040-216), for CAP 2018 (IPA/2018/040-220) and for CAP 2020 (IPA/2020/042-145).

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

The audits of samples of transaction in the framework of IPA II 2014-2020 for the Annual Action Programme for Montenegro (CAP 2016), Annual Action Programme for Montenegro (CAP 2017), Annual Action Programme for Montenegro (CAP 2018) and Annual Action Programme for Montenegro (CAP 2020) was conducted by the Audit Authority of Montenegro according to Audit Strategy 2023-2025 for Annual Country Action Programme for Montenegro for the year 2014, Annual Country Action Programme for Montenegro for the year 2016, Annual Country Action Programme for Montenegro for the year 2017, Annual Country Action Programme for Montenegro for the year 2018 and Annual Country Action Programme for Montenegro for the year 2020.

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

The sampling was performed by the Audit Authority in accordance with the method described in the Audit Strategy 2023-2025 and in accordance with the EC Guidance on sampling methods for audit authorities – Programming periods 2007-2013 and 2014-2020 (EGESIF 16-0014-01).

Population contains declared expenditure (cost recognized) for contracts (CAP 2016 -13 contracts, CAP 2017 – 9 contracts, CAP 2018 - 2 contracts and CAP 2020 - 2 contracts) in the reference period 01.01.2023-31.12.2023. Therefore, the sampling unit for the audits of transactions for the year 2023 (reference period) was the project/contract.

In the reference period, the total amount for CAP 2016 (IPA/2016/037-896) of 4,530,600.14€ for 13 contracts was declared to the European Commission Statement of Expenditure No 4 from June 5th, 2023. Therefore, for the declared amount, the materiality level (tolerable error) is 90,612.00€ (2%).

The total amount for CAP 2017 (IPA/2017/040-216) for 9 contracts was declared to the European Commission Statement of Expenditure No 4 from 15<sup>th</sup> March 2023 in the total amount of 488,408.54€. Therefore, for the declared amount, the materiality level (tolerable error) is 9,768.17€ (2%).

The total amount for CAP 2018 (IPA/2018/040-220) for 2 contracts was declared to the European Commission Statement of Expenditure No 2 (1<sup>st</sup> interim payment) – June 16<sup>th</sup>, 2023. in the total amount of 222,456.42€. Therefore, for the declared amount, the materiality level (tolerable error) is 4,449.13€ (2%).

In the reference period, the total amount for CAP 2020 (IPA/2020/042-145) of 344,023.10€ for 2 contracts was declared to the European Commission Statement of Expenditure No 2 (1<sup>st</sup> interim payment) - October 11<sup>th</sup>, 2023. Therefore, for the declared amount, the materiality level (tolerable error) is 6,880.46€ (2%).

In accordance with the EC Guidelines<sup>1</sup> and Manual of Procedures the Audit Authority applied non-statistical sampling for the selection of the sample.

---

<sup>1</sup> EGESIF\_16-0014-01 of 20 January 2017 – Guidance on sampling methods for Audit Authorities, Programming periods 2007-2013 and 2014-2020

Population contains declared expenditure (cost recognized) for action/operation/contract. The sampling unit for the audit of transactions for the year 2023 (reference period) was the project/contract. We stratified the population per contract and used the random method to select the sample. Sampling was made in specialized CAAT tool CaseWare IDEA.

Presentation of samples for Audits of Operations performed in 2023:

**The Audit of Operation CAP 2016 (IPA/2016/037-896)**

Out of the total 13 number of units in population, 3 of them were the subject of the audit.

Overall amount of sample size of 3 projects is 505,290.87€, which presents 23.08% of the total number of units/operations (population) and 11.15% of total amount of declared expenditure.

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

Contract N°	Name of the Contract	Expenditure (cost recognized) for the Audit of Operations
PWA/MNE/IPAII/CAP16/SUP/01-908/20-10672	<b>Supply contract:</b> Supply of Equipment for Support to Implementation and Monitoring of Waste Management, Montenegro - LOT 1: Municipal waste containers	386,971.20
PWA/MNE/IPAII/CAP16/SUP/01-908/20-10762	<b>Supply contract:</b> Supply of Equipment for Support to Implementation and Monitoring of Waste Management, Montenegro – LOT 2: Vertical Baling Press Machine	43,396.65
PWA/MNE/CAP2016/IPAII/GRA/01-908/20-11043/1	<b>Grant contract:</b> Increased Awareness on Environmental and Climate Action policies – Green Thinking for Greener Community premises of Customs Administration of Montenegro	74,923.02
<b>TOTAL</b>		<b>505,290.87</b>

**The Audit of Operation CAP 2017 (IPA/2017/040-216)**

Out of the total 9 number of units in population, 3 of them were the subject of the audit.

Overall amount of sample size of 3 projects is 230,068.42€. Three out of nine contracts were subject of the audit, which presents 33.33% of the total number of units/operations (population) and 47.11% of total amount of declared costs.

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

Contract N°	Name of the Contract	Expenditure (cost recognized) for the Audit of Operations
CFCU/MNE/168 Ministry of Health	<b>Service contract:</b> Needs Assessment for the Development of Monitoring System in the Area of Substances of Human Origin	48,000.00
CFCU/MNE/153 Ministry of Finance	<b>Service contract:</b> Strengthening the Capacities of CFCU Montenegro for Management and Implementation of EU Funds	180,068.42
CFCU/MNE/Invoice Ministry of Finance	Review of the main design /technical documentation for the adaptation/reconstruction of premises of Customs Administration of Montenegro	2,000.00
<b>TOTAL</b>		<b>230,068.42</b>

**The Audit of Operation CAP 2018 (IPA/2018/040-220)**

Out of the total 2 number of units in population, 1 of them were the subject of the audit.

Overall amount of sample size of 1 projects is 214,456.42€. One out of two contracts were subject of the audit, which presents 50,00% of the total number of units/operations (population) and

96,40% of total amount of declared costs.

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

Contract N°	Name of the Contract	Expenditure (cost recognized) for the Audit of Operations
CPA/MNE/IPAII/CAP18/WKS/01-908/22-3495/1	Works on the construction of one building for the Centre for Control and Prevention of Infectious Diseases with the Operational Centre for Emergency Situations	214,456.42
<b>TOTAL</b>		<b>214,456.42</b>

**The Audit of Operation CAP 2020 (IPA/2020/042-145)**

Total expenditures declared (cost recognized) are related to payments for 2 contracts in total amount of 344,023.10.

According to the fact that there is a small and limited number of sampling units for the reference year 2023, sampling method used is 100% declared expenditure (cost recognized).

Contract N°	Name of the Contract	Expenditure (cost recognized) for the Audit of Operations
(CFCU/MNE/191)	<b>Service contract:</b> Technical Assistance for supporting the implementation of Strategy for Smart Specialization	46,126.79
(CFCU/MNE/201)	<b>Supply contract:</b> Improvement of technical capacities of institutions involved in Competitiveness and Innovation; Lot 1: Supply of IT hardware equipment for inspection affairs	297,896.31
<b>TOTAL</b>		<b>344,023.10</b>

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

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

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

In the period covered by this report, the AA conducted audits of all declarations on expenditure declared by NAO to EC for those Programmes (the AA conducts audit of operation on expenditure declared by NAO to the EC through the declaration on expenditure). The Audit Authority conducted four audits of operations in 2023 (for CAP 2016, CAP 2017, CAP 2018 and for CAP 2020).



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

Programme: CAP 2016	Costs recognized/Population				Costs recognized/Audited				Audited / Declared expenditure (%)
	EU	NC	Others	Total	EU	NC	Others	Total	
<b>Sector 3 Environment and climate actions</b>	<b>2,427,509.47</b>	<b>463,120.02</b>	<b>0.00</b>	<b>2,890,629.49</b>	<b>419,944.55</b>	<b>74,107.86</b>	<b>11,238.46</b>	<b>505,290.87</b>	
<i>Action 1: Capacity buildings acquis related activities</i>	2,427,509.47	463,120.02	0.00	2,890,629.49	419,944.55	74,107.86	11,238.46	505,290.87	
<b>Sector 5 Competitiveness and innovation</b>	<b>1,416,045.26</b>	<b>218,160.39</b>	<b>0.00</b>	<b>1,634,205.65</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	
<i>Action 2: Strengthening the competitiveness and innovation sector in Montenegro</i>	1,416,045.26	218,160.39	0.00	1,634,205.65	0.00	0.00	0.00	0.00	
<b>Total</b>	<b>3,843,554.73</b>	<b>681,280.41</b>	<b>0.00</b>	<b>4,524,835.14</b>	<b>419,944.55</b>	<b>74,107.86</b>	<b>11,238.46</b>	<b>505,290.87</b>	<b>11.15%</b>

The negative item of 5.765,00 was excluded from population. So the final value of the population is 4,530,600.14 for 13 contracts.

Population, expenditure (cost recognized) for the Audit of Operation is 4,530,600.14€.

Programme: CAP 2017	Costs recognized/Population				Costs recognized/Audited				Audited / Declared expenditure (%)
	EU	NC	Others	Total	EU	NC	Others	Total	
<b>Sector 1 Democracy and Governance</b>	<b>488,408.54</b>	<b>0.00</b>	<b>0.00</b>	<b>488,408.54</b>	<b>230,068.42</b>	<b>0.00</b>	<b>0.00</b>	<b>230,068.42</b>	
<i>Action 1: EU Integration Facility</i>	488,408.54	0.00	0.00	488,408.54	230,068.42	0.00	0.00	230,068.42	
<b>Total</b>	<b>488,408.54</b>	<b>0.00</b>	<b>0.00</b>	<b>488,408.54</b>	<b>230,068.42</b>	<b>0.00</b>	<b>0.00</b>	<b>230,068.42</b>	<b>47.11%</b>

Population, expenditure (cost recognized) for the Audit of Operation is 488,408,54€.

No negative items were present in the amounts declared to the Commission during 2023.

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

Programme: CAP 2018	Costs recognized/Population				Costs recognized/Audited				Audited / Declared expenditure (%)
	EU	NC	Others	Total	EU	NC	Others	Total	
<b>Sector 7 Education, Employment and Social Policies</b>	<b>222,456.42</b>	<b>0.00</b>	<b>0.00</b>	<b>222,456.42</b>	<b>214,456.42</b>	<b>0.00</b>	<b>0.00</b>	<b>214,456.42</b>	
<i>Action 5 – EU for strengthening the quality and access of health and social services</i>	222,456.42	0.00	0.00	222,456.42	214,456.42	0.00	0.00	214,456.42	
<b>Total</b>	<b>222,456.42</b>	<b>0.00</b>	<b>0.00</b>	<b>222,456.42</b>	<b>214,456.42</b>	<b>0.00</b>	<b>0.00</b>	<b>214,456.42</b>	<b>96.40%</b>

Population, expenditure (cost recognized) for the Audit of Operation is 222,456.42€.

No negative items were present in the amounts declared to the Commission during 2023.

Programme: CAP 2020	Costs recognized/Population				Costs recognized/Audited				Audited / Declared expenditure (%)
	EU	NC	Others	Total	EU	NC	Others	Total	
<b>Sector 5: Competitiveness and Innovation</b>	<b>292,419.63</b>	<b>51,603.47</b>	<b>0.00</b>	<b>344,023.10</b>	<b>292,419.63</b>	<b>51,603.47</b>	<b>0.00</b>	<b>344,023.10</b>	
<i>Action 4: EU for Strengthening the Competitiveness and Innovation</i>	292,419.63	51,603.47	0.00	344,023.10	292,419.63	51,603.47	0.00	344,023.10	
<b>Sector 7: Education, Employment and Social Policy</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	
<i>Action 4: EU for Smart and Inclusive Growth - employment and social inclusion</i>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
<b>Total</b>	<b>292,419.63</b>	<b>51,603.47</b>	<b>0.00</b>	<b>344,023.10</b>	<b>292,419.63</b>	<b>51,603.47</b>	<b>0.00</b>	<b>344,023.10</b>	<b>100%</b>

Population, expenditure (cost recognized) for the Audit of Operation is 344,023.10€.

No negative items were present in the amounts declared to the Commission during 2023.

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

The negative amount of 5,765.00 was excluded from the sampling population and was treated as a separate population.

Within the framework of the CAP 2016 program, a recovery was initiated for the contract PWA/MNE/IPAI/CAP16/SUP/01-908/20-10414. The recovery was initiated by CPA as the Contracting Authority on 31/05/2023 for a total amount of 5,765.00 (EU part: 4,900.25, national co-financing: 864.75). The recovery has not yet been realized.

### 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 when designing the sampling methodology may be the operation, project partner or payment claim.

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

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

<i>Country Annual Programme for Montenegro for year 2016 (IPA/2016/037-896)</i>	
Amount of declared expenditure	4,530,600.14€
No of units in population	13
Value of the sample tested	505,290.87€
Value of the sample tested in %	11.15%
No of units in sample	3
No of units in sample in %	23.08%
Materiality 2% of expenditure declared in reference period (tolerable misstatement) (4,530,600.14* 2%)	90,612.00€
Error amount determined by the audit	0.00
Error rate	0.00%
Extrapolated error	0.00
<i>Country Annual Programme for Montenegro for year 2017 (IPA/2017/040-216)</i>	
Amount of declared expenditure	488,408.54€
No of units in population	9
Value of the sample tested	230,068.42€
Value of the sample tested in %	47.11%

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

No of units in sample	3
No of units in sample in %	33.33%
Materiality 2% of expenditure declared in reference period (tolerable misstatement) (488,408,54€* 2%)	9,768.17€
Error amount determined by the audit	0.00
Error rate	0.00%
Extrapolated error	0.00
<b>Country Annual Programme for Montenegro for year 2018 (IPA/2018/040-220)</b>	
Amount of declared expenditure	222,456.42€
No of units in population	2
Value of the sample tested	214,456.42€
Value of the sample tested in %	96.40%
No of units in sample	1
No of units in sample in %	50%
Materiality 2% of expenditure declared in reference period (tolerable misstatement) (222,456.42€* 2%)	4,449.13€
Error amount determined by the audit	0.00
Error rate	0.00%
Extrapolated error	0.00
<b>Country Annual Programme for Montenegro for year 2020 (IPA/2020/042-145)</b>	
Amount of declared expenditure	344,023.10€
No of units in population	2
Value of the sample tested	344,023.10€
Value of the sample tested in %	100%
No of units in sample	2
No of units in sample in %	100%
Materiality 2% of expenditure declared in reference period (tolerable misstatement) (344,023.10€* 2%)	6,880.46€
Error amount determined by the audit	0.00
Error rate	0.00%
Extrapolated error	0.00

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

Not applicable.

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

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

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

- a) Operation's compliance with Operational Programme,
- b) Procurement procedures (tendering and contracting),

- c) Eligibility of expenditure,
- d) Publicity and Visibility,
- e) Payments,
- f) Accounting and supporting documents,
- g) National co-financing,
- h) Reality of operation,
- i) Fulfilment of the operation objectives
- j) Audit trail.

**The Audit of Operation CAP 2016 (IPA/2016/037-896)**

Cost recognized refers to the following contracts:

<i>Contract No</i>	<i>Name of the Contract</i>	<i>Costs recognizeed/ Request for Funds Instalment no 4</i>	<i>Costs recognizeed/ Request for Funds Instalment no 3</i>	<i>Population for selecting the sample</i>
PWA/MNE/IPAII/CAP16/SER/01-908/20-10606/1	Service contract: Support to Project Preparation for Environment and Climate Change Sector, Montenegro	1,098,831.97	0.00	1,098,831.97
PWA/MNE/IPAII/CAP16/SER/01-7497/1	Service contract: Support to Implementation and Monitoring of Water Management, Montenegro	2151364.49	1082884.98	1,068,749.51
PWA/MNE/IPAII/CAP16/SUP/01-908/20-10672	Supply contract: Supply of IT Equipment for horizontal support to Environmental Monitoring and the equipment for Air quality sub-sector, Montenegro - (Lot 1)	123,217.98	123,217.98	0.00
PWA/MNE/IPAII/CAP16/SUP/01-908/20-10762	Supply contract: Supply of IT Equipment for horizontal support to Environmental Monitoring and the equipment for Air quality sub-sector, Montenegro - lot 2	31,914.00	31,914.00	0.00
PWA/MNE/IPAII/CAP16/SUP/01-908/20-10762	Supply contract: Supply of IT Equipment for horizontal support to Environmental Monitoring and the equipment for Air quality sub-sector, Montenegro - (Lot 3)	62,100.00	62,100.00	0.00
PWA/MNE/IPAII/CAP16/SUP/01-908/20-10414	Supply contract: Supply of the equipment for the implementation and monitoring of water management, inland and costal, in Montenegro - LOT 3	48,080.00	53,845.00	-5,765.00
PWA/MNE/IPAII/CAP16/SUP/01-908/20-10415	Supply contract: Supply of the equipment for the implementation and monitoring of water management, inland and costal, in Montenegro - LOT 6 Chemical standards and refence materials	19,740.00	19,740.00	0.00
PWA/MNE/IPAII/CAP16/SUP/01-908/20-10672	Supply contract: Supply of Equipment for Support to Implementation and Monitoring of Waste Management, Montenegro - LOT 1: Municipal waste containers	386,971.20	0.00	386,971.20
PWA/MNE/IPAII/CAP16/SUP/01-908/20-10762	Supply contract: Supply of Equipment for Support to Implementation and Monitoring of Waste Management, Montenegro – LOT 2: Vertical Baling Press Machine	43,396.65	0.00	43,396.65
PWA/MNE/IPAII/CAP16/SUP/01-908/20-10659	Supply contract: Supply of the equipment for the implementation of the European Civil Protection Mechanism (Lot 1- Supply of the vehicle)	104,940.00	104,940.00	0.00
PWA/MNE/IPAII/CAP16/SUP/01-908/20-10660	Supply contract: Supply of the equipment for the implementation of the European Civil Protection Mechanism (Lot 2 - Supply of vans)	42,920.00	42,920.00	0.00
PWA/MNE/IPAII/CAP16/SUP/01-908/20-10661	Supply contract: Supply of the equipment for the implementation of the European Civil Protection mechanism (Lot 4)	5,790.00	5,790.00	0.00
PWA/MNE/CAP2016/IPAII/GRA/01-908/20-11044/1	Grant contract: Grant contract: Increased Awareness on Environmental and Climate Action policies – ClimCity – Urban Adaption to Climate Change in Montenegrin schools	82,000.00	0.00	82,000.00
PWA/MNE/CAP2016/IPAII/GRA/01-908/20-11042/1	Grant contract: Increased Awareness on Environmental and Climate Action policies – Green point	57,995.46	0.00	57,995.46
PWA/MNE/CAP2016/IPAII/GRA/01-908/20-11043/1	Grant contract: Increased Awareness on Environmental and Climate Action policies – Green Thinking for Greener Community	74,923.02	0.00	74,923.02

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

PWA/MNE/CAP2016/IPAII/GRA/01-908/20-11040/1	Grant contract: Increased Awareness on Environmental and Climate Action policies – Climate Awareness Project! Afforestation of NP Prokletije for a higher resistance to fires and climate change	83,796.68	0.00	83,796.68
(MN 16 IPA HE 01 20)	Twinning contract: Support to the Agency for Medicines and Medical Devices of Montenegro (CALIMS) (MN 16 IPA HE 01 20)	264,506.75	68,399.64	196,107.11
CFCU/MNE/141	Service contract: Improving access to finance of private sector for competitiveness and innovation	626,707.13	197,759.83	428,947.30
CFCU/MNE/142	Service contract: Promoting the internationalization of Montenegrin economy, with a focus on SMEs	294,800.00	148,207.24	146,592.76
CFCU/MNE/102	Service contract: Promoting innovation culture and supporting collaboration between research, education and innovation actors	289,900.00	200,373.52	89,526.48
CFCU/MNE/124	Supply contract: Improvement of R&I related infrastructures that can be used in support for SMEs development	269,442.00	269,442.00	0.00
CFCU/MNE/125	Supply contract: Improvement of R&I related infrastructures that can be used in support for SMEs development (LOT 2: Laboratory equipment for Industrial design)	354,015.00	354,015.00	0.00
CFCU/MNE/126	Supply contract: Improvement of R&I related infrastructures that can be used in support for SMEs development (LOT 3: IT equipment for Data center)	194,467.00	194,467.00	0.00
CFCU/MNE/103	Supply contract: Supply of equipment for strengthening capacities of relevant institutions involved in Competitiveness and Innovation Sector in Ministry of Economic Development (LOT 1: IT Hardware)	959,098.00	959,098.00	0.00
CFCU/MNE/104	Supply contract: Supply of equipment for strengthening capacities of relevant institutions involved in Competitiveness and Innovation Sector in Ministry of Economic Development (LOT 2: Software Package and Information System)	271,000.00	271,000.00	0.00
CFCU/MNE/143	Direct award contract: Supporting entrepreneurship through advanced advisory services and information services for SMEs	773,032.00	0.00	773,032.00
<b>Total:</b>		<b>8,714,949.33</b>	<b>4,190,114.19</b>	<b>4,524,835.14</b>

Following bodies were covered during the audit:

- Ministry of Tourism, Ecology, Sustainable Development and Northern Region Development - PIU
- Administration for Capital Projects(CPA) - Implementing Agency
- National Fund Division (NFD).

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

**System Finding No 1: Sustainability of the contracts**

**Audit area I: Fulfilment of the operation objectives**

**Operation/Contract:**

**Supply contract:** Supply of Equipment for Support to Implementation and Monitoring of Waste Management, Montenegro - LOT 1: Municipal waste containers

**PWA/MNE/IPAII/CAP16/SUP/01-908/20-10672**

**Supply contract:** Supply of Equipment for Support to Implementation and Monitoring of Waste Management, Montenegro – LOT 2: Vertical Baling Press Machine

**PWA/MNE/IPAII/CAP16/SUP/01-908/20-10762**

**Level of Priority:** Intermediate

**Implementation Deadline:** II Q 2024

**Responsible Body/ies:** PIU/Ministry of Tourism, Ecology, Sustainable Development and Northern Region Development

Based on insight into submitted documentation during the audit performed, as well as on the performed on the spot check verification by auditors for the contracts from the sample, we determined the following:

Municipality BAR

LOT 1:

- The containers lids, that were checked on the spot, were removed from all Municipal waste containers V=1,1m<sup>3</sup>,

LOT 2:

- Visibility requirements were not respected on the Vertical Baling Press Machine
- Vertical Baling Press Machine was used several times only.

Municipality CETINJE:

LOT 1:

- Visibility requirements were not respected on the Municipal waste containers V=5m<sup>3</sup>.
- The containers lids, that were checked on the spot, were removed from all Municipal waste containers V=1,1m<sup>3</sup>,

LOT 2:

- Vertical Baling Press Machine was not used at all.

**Recommendation:**

We recommend to the PIU, according to their obligation of monitoring of the activities completed, to check sustainability of the Contract (equipment is maintained and in use), as well as respecting the visibility requirements.

**The Audit of Operation CAP 2017 (IPA/2017/040-216)**

Cost recognized refers to the following contracts:

<i>Contract No</i>	<i>Name of the Contract</i>	<i>Costs recognizeed/ Request for Funds Instalment no 4</i>	<i>Costs recognizeed/ Request for Funds Instalment no 3</i>	<i>Population for selecting the sample</i>
<i>(CFCU/MNE/156)</i>	<i>Service contract: Evaluation of the PFM Reform Programme</i>	<i>19,999.00</i>	<i>19,999.00</i>	<i>0.00</i>
<i>(CFCU/MNE/105)</i>	<i>Service contract: Communicating EU accession and EU assistance in Montenegro III</i>	<i>145,000.00</i>	<i>145,000.00</i>	<i>0.00</i>
<i>(CFCU/MNE/153)</i>	<i>Service contract: Strengthening the Capacities of CFCU Montenegro for Management and Implementation of EU Funds</i>	<i>278,589.66</i>	<i>98,521.24</i>	<i>180,068.42</i>
<i>(CFCU/MNE/163)</i>	<i>Service contract: Drafting of the main design /technical documentation for the adaptation/reconstruction of premises of Customs Administration of Montenegro</i>	<i>16,440.00</i>	<i>16,440.00</i>	<i>0.00</i>
<i>(CFCU/MNE/146)</i>	<i>Service contract: Strengthening the capacities of Directorate for Management Structure for IPA programmes managed under indirect management</i>	<i>206,813.19</i>	<i>34,848.77</i>	<i>171,964.42</i>
<i>Twinning (MN 17 IPA EN 01 20 TWL)</i>	<i>Development of integrated Air Emissions Inventory tool and Update of Air Emissions Inventory for the period 2011-2018</i>	<i>1,313.34</i>	<i>0.00</i>	<i>1,313.34</i>
<i>(CFCU/MNE/168)</i>	<i>Service contract: Needs Assessment for the Development of Monitoring System in the Area of Substances of Human Origin</i>	<i>48,000.00</i>	<i>0.00</i>	<i>48,000.00</i>
<i>(CFCU/MNE/165)</i>	<i>Service contract: Support to the elaboration of the PAR Strategy 2021 - 2025</i>	<i>19,990.00</i>	<i>0.00</i>	<i>19,990.00</i>

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

<i>Twinning (MN 17 IPA EN 01 20 TWL</i>	<i>Support to the Customs Administration in preparation for upgrading TARICG EU TARIC latest version and related ITMS subsystems</i>	<i>27,142.36</i>	<i>0.00</i>	<i>27,142.36</i>
<i>(CFCU/MNE/190)</i>	<i>Establishing a sustainable knowledge base platform for CFCU</i>	<i>19,930.00</i>	<i>0.00</i>	<i>19,930.00</i>
<i>(CFCU/MNE/193)</i>	<i>Assistance in translation of the technical specifications (main design) and preparation of tender dossiers for construction and supervision of works of the Centre for Control and Prevention of Infectious Diseases with the Operational Centre for Emergency Situations</i>	<i>18,000.00</i>	<i>0.00</i>	<i>18,000.00</i>
<i>(CFCU/MNE/Invoice)</i>	<i>Review of the main design /technical documentation for the adaptation/reconstruction of premises of Customs Administration of Montenegro</i>	<i>2,000.00</i>	<i>0.00</i>	<i>2,000.00</i>
<i>CFCU/MNE/127</i>	<i>Service contract: Assistance in Translation of the Technical Specifications (Main Design) for Construction of the Clinic for Dermatovenerology and Infectious Diseases</i>	<i>11,000.00</i>	<i>11,000.00</i>	<i>0.00</i>
<i>CFCU/MNE/154</i>	<i>Supply contract: Supply of hardware equipment with server licenses for functioning of new System for the centralized calculation of earnings and new Budget planning information system</i>	<i>129,150.00</i>	<i>129,150.00</i>	<i>0.00</i>
<i>CFCU/MNE/145</i>	<i>Service contract: Assistance in preparation of TD for works and supervision of the Clinic for Dermatovenerology and Infectious Diseases</i>	<i>19,800.00</i>	<i>19,800.00</i>	<i>0.00</i>
<b>Total:</b>		<b>963,167.55</b>	<b>474,759.01</b>	<b>488,408.54</b>

Following bodies were covered during the audit:

- Ministry of Finance - PIU
- Ministry of Health - PIU
- Central Finance and Contracting Unit (CFCU) - Implementing Agency
- National Fund Division (NFD).

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

### **The Audit of Operation CAP 2018 (IPA/2018/040-220)**

Cost recognized refers to the following contracts:

<b>Contract No</b>	<b>Name of the Contract</b>	<b>Declaration of expenditure was submitted</b>	<b>Population for selecting the sample</b>
<i>Service contract (PWA/MNE/IPA II/CAP18/SER/01-908/22-1337/1)</i>	<i>“Assistance in translation of the technical specifications (main design-adaptation) and preparation of tender dossiers for adaptation works and supervision of adaptation works of microbiological laboratories and supply of equipment”</i>	<i>8,000.00</i>	<i>8,000.00</i>
<i>Works contract (CPA/MNE/IPAII/CAP18/WKS/01-908/22-3495/1)</i>	<i>“Works on the construction of one building for the Centre for Control and Prevention of Infectious Diseases with the Operational Centre for Emergency Situations”</i>	<i>214,456.42</i>	<i>214,456.42</i>
<b>Total</b>		<b>222,456.42</b>	<b>222,456.42</b>

Following bodies were covered during the audit:

- Ministry of Health – PIU
- Administration for Capital Projects(CPA) - Implementing Agency



- National Fund Division (NFD).

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

**The Audit of Operation CAP 2020 (IPA/2020/042-145)**

Cost recognized refers to the following contracts:

<i>Contract No</i>	<i>Name of the Contract</i>	<i>Declaration of expenditure was submitted</i>	<i>Population for selecting the sample</i>
<i>(CFCU/MNE/191)</i>	<i>Service contract: Technical Assistance for supporting the implementation of Strategy for Smart Specialisation</i>	<i>46,126.79</i>	<i>46,126.79</i>
<i>(CFCU/MNE/201)</i>	<i>Supply contract: Improvement of technical capacities of institutions involved in Competitiveness and Innovation; Lot 1: Supply of IT hardware equipment for inspection affairs</i>	<i>297,896.31</i>	<i>297,896.31</i>
<b>Total</b>		<b>344,023.10</b>	<b>344,023.10</b>

Following bodies were covered during the audit:

- Ministry of Economic Development – PIU
- Central Finance and Contracting Unit (CFCU) - Implementing Agency
- National Fund Division (NFD).

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

**System Finding No 1: Potential non-fulfilment Operation's objective**

**Operation/Contract:** *Improvement of technical capacities of institutions involved in Competitiveness and Innovation Sector Lot 1: Supply IT hardware equipment for inspection affairs CFCU/MNE/201*

**Level of Priority:** *Intermediate*

**Implementation Deadline:** *1 Q 2024*

**Responsible Body/ies:** Ministry of Economy (PIU); Final recipient of assistance: Administration for Inspection Affairs

Based on the insight into submitted documentation during the audit performed, for the contract from the sample *Improvement of technical capacities of institutions involved in Competitiveness*

*and Innovation Sector / CFCU/MNE/201 Lot 1: Supply IT hardware equipment for inspection affairs*, as well as based on performed OTSC, we determined the following:

Equipment from the Contract was delivered according to the conditions from the signed contract, all supporting documents were provided. Furthermore, assigned equipment is in use and visibility requirements are respected.

Nevertheless, during the OTSC we determined that certain number of equipment was unassigned.

Since the Provisional Acceptance Certificate was signed on 29/03/2023 and according to Article 32 of SC of the Contract the warranty must remain valid for one year after provisional acceptance, we consider that it is very important to assign all the supplied equipment to the employees during the warranty period, so that, in case defects are found on the equipment, they would be removed during the warranty period.

***Recommendation:***

We recommend assigning equipment as soon as possible, in order to remove potential defects during the warranty period and before signing Final Acceptance Certificate.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable

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

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

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

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

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

In accordance with the Audit Strategy for the IPA II 2014-2020 for the Annual Country Action Programmes for Montenegro for the years 2014, 2016, 2017, 2018 and 2020 submitted to European Commission - DG Near on November 30<sup>th</sup> 2022 the Audit Authority of Montenegro carried out an audit of completeness, accuracy and veracity of the annual financial reports or statements (audit of accounts) for above mentioned programmes for the reference financial year 2023, i.e. the accounting year from 1<sup>st</sup> January to 31<sup>st</sup> December 2023, issued by NAO on 15<sup>th</sup> February 2024 (Final Report on Audit of Accounts).

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

In the context of the Audit of Accounts, and for the purposes of the Audit opinion, in order to reach a conclusion on the completeness, accuracy and veracity of the annual financial reports or statements, the Audit Authority verifies whether all accounting information presented in the Annual financial reports or statements/annual accounts which are submitted to the Commission is prepared, in all material respects, in accordance with the applicable Financial reporting framework. For the purpose of expressing the Annual Audit Opinion, in order to conclude that the Annual Financial Report gives a true and fair view, the Audit Authority shall verify that all elements required by models stipulated in Annex IV of the Financing Agreements concerning the CAP for the year 2014, 2016, 2017, 2018 and 2020, i.e. cumulative amounts declared from the programmes, are correctly included in the accounts and correspond to the supporting accounting records maintained by bodies in the National Fund Division (NF) and Implementing Agencies / Directorate for Finance and Contracting of the EU Assistance Funds (CFCU) and Capital Projects Administration (CPA).

In line with Article 59(2) of the Framework Agreement concluded between the Government of Montenegro and the European Commission on the arrangements for implementation of Union financial assistance to Montenegro under the Instrument for Pre-accession assistance (IPA II), NAO submitted Annual Financial Reports for 2023 to EC on 15<sup>th</sup> February 2024.

This audit of accounts covered Annual Financial Report for 2023 for the Annual Country Action Programmes for Montenegro for the years 2014, 2016, 2017, 2018 and 2020.

The summarized data regarding the total amounts contracted, recommitted, disbursed, recognized and open pre-financing as well as recoveries and bank balance, which are submitted in the previously mentioned AFR for 2023, are presented in the table below:

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

Financial/accounting year: 2023

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

Programme	Financing Agreement contract number	Local Contract Activities															Bank Balances (EU contribution)
		Total Amount Contracted			Amount Decommited on closure	Total Amount Disbursed			Total Costs Recognised			Total Open Pre-financing			Recovery context		
		EU contribution	National contribution	Other sources	Total	EU contribution	National contribution	Other sources	EU contribution	National contribution	Other sources	EU contribution	National contribution	Other sources	Errors/Irregularities/Fraud	No context	Total
CAP 2014	2014/032-022	9,824,514.28	1,781,501.70	0.00	0,00	9,753,067.34	1,773,269.02	0.00	9,753,067.34	1,773,269.02	0.00	0.00	0.00	0.00	0,00	87,412.40	74,852.66
CAP 2014	2014/032-803	11,229,602.94	2,424,264.62	0.00	0,00	10,806,826.24	2,377,417.88	0.00	10,806,826.24	2,377,417.88	0.00	0.00	0.00	0.00	0,00	465,265.20	107,224.93
CAP 2016	2016/037-896	11,862,503.49	1,591,610.63	454,800.79	0,00	9,631,716.54	1,390,927.50	0.00	8,462,925.55	1,225,128.49	168,622.79	1,168,790.99	165,799.01	0.00	0,00	5,765.00	1,707,201.31
CAP 2017	2017/040-216	3,452,978.61	943,852.00	0.00	0,00	2,973,510.76	943,852.00	0.00	2,688,420.76	943,852.00	0.00	285,090.00	0.00	0.00	0,00	20,064.22	440,558.51
CAP 2017	2017/039-816	8,748,764.96	2,256,184.17	0.00	0,00	5,621,493.64	1,566,730.18	0.00	4,672,079.20	1,446,124.81	0.00	1,056,711.48	186,478.55	0.00	0,00	0.00	2,383,511.17
CAP 2018	2018/040-218	10,998,435.92	12,481,486.16	0.00	0,00	6,190,958.45	4,734,433.39	0.00	5,826,769.69	4,220,127.21	0.00	632,960.73	747,866.12	0.00	0,00	0.00	3,521,312.22
CAP 2018	2018/040-220	12,780,000.00	331,553.24	0.00	0,00	4,691,665.32	198,963.70	0.00	4,207,472.51	155,488.71	0.00	837,529.60	43,474.99	0.00	0,00	0.00	6,854,367.60
CAP 2020	2020/042-142	443,174.69	443,174.69	0.00	0,00	443,174.69	443,174.69	0.00	443,174.69	443,174.69	0.00	0.00	0.00	0.00	0,00	0.00	0.00
CAP 2020	2020/042-145	7,157,191.64	1,263,033.79	558,356.87	0,00	3,891,808.40	686,789.70	0.00	534,564.61	94,334.94	0.00	3,357,243.79	592,454.76	0.00	0,00	0.00	1,145,423.41

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

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

In order to achieve the overall objective, the Audit Authority took into account the results audits performed in 2023.

Audit was carried out considering the results of System audits for the CAP 2016, CAP 2017, CAP 2018 and CAP 2020 by Audit Authority and audits of operations/transactions for CAP 2016, CAP 2017 (2017/040-216), CAP 2018 (2018/040-220) and CAP 2020 (2020/042-145).

During 2023, NAO did not submit a request for funds including a “Declaration of expenditure”, for programmes: CAP 2014 (2014/032-803 and 2014/032-022); CAP 2017 (2017/039-816) and CAP 2018 (2018/040-218). Therefore, AA was not able to perform Audit of Operations/transactions. However, within System Audit which was carried out in 2023, (report No 3011-1-06-24/1 of 29<sup>th</sup> January 2024) on the basis sample of transactions we audited ICFR 3 - Control activities within CAP 2017 (2017/040-816) and CAP 2018 (2018/040-218).

For the purpose of the Audit of Accounts, AA performed additional tests on the sample of transactions included in financial reports/accounts for programmes for which were not performed Audit of Operations. Selecting the sample for testing was performed according to the methodology defined by EC Guidance on sampling methods for audit authorities and Manual of Procedures of AA. Population consists of transactions per each Programme (budgetary line) for reference period 01/01/2023 - 31/12/2023. We excluded transactions audited through system audit, stratified the whole population in strata per each Programme (budgetary line) and used the random method to select the sample in each stratum. We decided to increase audited sample and took around 30% of total number of payments per each budget line per every Programme. The purpose of test sample of transactions, included in financial reports/accounts, is to check whether it correspond with the amounts specified in the verified documents, collected from NF and IA/CFCU and CPA.

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

payment orders, IA Cash flow statements, Bank statements and IAs Accounting records in the General Ledger.

Furthermore, verifications on the amounts were carried out on the following evidence: Year-end cut-off reports, Requests for Funds from IAs, Liquidity book, Bank statements, Quarterly Progress Reports on contracts and payments, Bridge financing documents and Transfer orders, accounting records in the General Ledgers, Financial reports of NFD and IAs for 2023, Register of recoveries and supporting documents, Financial forecasts and Forecast of likely payment requests, Payment book of IAs.

During the audit, we identified and documented two finding.

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

**Finding No 1: Incorrect amount of “Total Costs Recognised” in AFR**

**Programmes:** CAP 2017 (039-816); CAP 2018 (2018/040-218 and 2018/040-220); - Annual Financial Report for 2023, item No. 10

**Level of priority:** Intermediate

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

By the performed checks of relevant documentation and the accounting records, regarding to the total amount disbursed, total amounts recognized, total amount of open pre-financing and the amount of recoveries, we determined that amounts of total costs recognised were not properly reported in the ARF 1 for Programme CAP 2017/039-816; CAP 2018 2018/040-218 and 2018/040-220 for 2023.

By comparing the AFR 1 and the accounting records, we concluded that the total costs recognised were adequately treated in accounting records of CPA. However, they were not correctly presented in the AFR 1 for 2023. Namely, total costs recognised has been presented in the amount more than it should be. This amount difference is related to the amount of retention money for works contract. The results are presented in the table below:

Financing Agreement contract number	Total Costs Recognized		
	A	B	Difference
<b>CAP 2017 (039-816)</b>	<b>Annual Financial Report</b>	<b>Record in accounting system IA</b>	<b>=A-B</b>
EU contribution	4,672,079.20	4,577,723.92	94,355.28
National contribution	1,446,124.81	1,367,309.87	78,814.94
<b>Total</b>	<b>6,118,204.01</b>	<b>5,945,033.79</b>	<b>173,170.22</b>
<b>CAP 2018 (040-218)</b>	<b>Annual Financial Report</b>	<b>Record in accounting system IA</b>	<b>=A-B</b>
EU contribution	5,826,769.69	5,549,438.85	277,330.84
National contribution	4,220,127.21	3,995,126.16	225,001.05
<b>Total</b>	<b>10,046,896.90</b>	<b>9,544,565.01</b>	<b>502,331.89</b>
<b>CAP 2018 (040-220)</b>	<b>Annual Financial Report</b>	<b>Record in accounting system IA</b>	<b>=A-B</b>
EU contribution	4,207,472.51	3,854,135.73	353,336.78
National contribution	155,488.71	155,488.71	0.00
<b>Total</b>	<b>4,362,961.22</b>	<b>4,009,624.44</b>	<b>353,336.78</b>

**Recommendation:** Retention money is cost that is incurred and accepted, but not yet paid. In order to ensure complete and accurate display of data in AFR 1, we recommend respecting Article 4 section (5) of the General Conditions of IPA II Financing Agreements (FAs) which lists four conditions to declare costs as “recognized”: they must be (i) incurred, (ii) paid, (iii) accepted and (iv) correspond to actual costs proven by supporting documents.

**FINDING N°: 2 Incorrect amount of “Total Amount Disbursed” in AFR**

**Programme:** CAP 2016 (2016/037-896) - Annual Financial Report for 2023, item No. 8

**Level of priority:** Intermediate

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

By the performed checks of relevant documentation and the accounting records, regarding to the total amount disbursed, total amounts recognized, total amount of open pre-financing and the amount of recoveries, we determined that “Total Amount Disbursed” was not properly reported in the ARF 1 for Programme CAP 2016 (2016/037-896).

By comparing the AFR 1 and the accounting records, we concluded that “Total Amount Disbursed” were adequately treated in accounting records of CPA. However, they were not correctly presented in the AFR 1 for 2023. Namely, “Total Amount Disbursed” has been presented in the amount less than in accounting records of CPA. Difference in total amount of **5,765.00** is related to the requested recovery funds, but since payment is not executed and paid, pending/requested recovery cannot be excluded from the “Total Amount Disbursed”.

Table: Difference related to Total Amount Disbursed

<i>Total Amount Disbursed</i>			
<i>CAP 2016 (037-896)</i>	<i>A</i>	<i>B</i>	<i>Difference</i>
	<i>Annual Financial Report</i>	<i>Record in accounting system IA</i>	
<i>EU contribution</i>	9,631,716.54	9,636,616.79	-4,900.25
<i>National contribution</i>	1,390,927.50	1,391,792.25	-864.75
<i>Other sources</i>	0.00	0.00	0.00
<b><i>Total</i></b>	<b>11,022,644.04</b>	<b>11,028,409.44</b>	<b>-5,765.00</b>

**Recommendation:** In order to ensure complete and accurate annual financial report, we recommend that “Total Amount Disbursed” should represent only payments that were executed and paid. Requested recoveries should be treated as liabilities, since they are not fully recovered/paid.



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

During Audit of Accounts for 2022 performed in 2023, the follow-up of findings and recommendations from previous audit was performed, and the results of the follow-up is the constituent part of Audit of Accounts report.

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

During Audit of Accounts for 2022 we gave two finding:

- Incorrect amount of “Total Amount Disbursed” in AFR
- Incorrectly presented item “Total Contracted Amount” in AFR1

**FINDING n°: 1**

**Programme:** CAP 2014(2014/032-803) - Annual Financial Report for 2022, item No. 8

**Level of priority:** Intermediate

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

**Finding:** Incorrect amount of “Total Amount Disbursed” in AFR

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

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

Table: Difference related to Total Amount Disbursed

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

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

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

**FINDING n°: 2**

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

**Level of priority:** Intermediate

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

**Finding:** Incorrectly presented item “Total Contracted Amount” in AFR1

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

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

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

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

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

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

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

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

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

*Since our recommendation is implemented, we consider this **finding closed**.*

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

Not applicable.

**7. FOLLOW-UP OF PREVIOUS YEARS' AUDIT ACTIVITY**

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

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

In the period December 2023 - January 2024 the Audit Authority regularly performed follow-up of the findings and recommendations given in the course of previous audits.

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

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

### AUDIT RECOMMENDATION STATUS REPORT – FOLLOW-UP

<b>AUDITEE</b>	National Fund Division/NAO support office; NIPAC office; <i>Implementing Agencies:</i> Central Finance and Contracting Unit (CFCU) and Capital Project Administration (CPA), <i>Project Implementation Units of the line ministries:</i> Ministry of Finance, Ministry of Interior, Ministry of Tourism, Ecology, Sustainable Development and Northern Region Development Ministry of Economic Development
<b>AUDIT REPORT</b>	Final Reports on performed System Audits: <ul style="list-style-type: none"> <li>- CAP 2014 no 3011-1-06-30/4 from 20.10.2017;</li> <li>- CAP 2014, CAP 2016, CAP 2017 and CAP 2018 no 3011-1-06-207/4 from 23.12.2020.;</li> <li>- CAP 2014, CAP 2016, CAP 2017, CAP 2018 and CAP 2020 no 3011-2-06-525/2 from 20.01.2022. and</li> <li>- CAP 2014, CAP 2016, CAP 2017, CAP 2018, CAP 2020 no 3011-1-06-563/2 from 30.12.2022.,</li> <li>- CAP 2016, CAP 2017, CAP 2018, CAP 2020 no 3011-1-06-24/1 from 29.01.2024.</li> </ul> Final Reports on performed Audits on operations: <ul style="list-style-type: none"> <li>- CAP 2014 no 3011-2-06-2/2 from 20.01.2022.;</li> <li>- CAP 2018 no 3011-2-06-556/2 from 29.12.2022.;</li> </ul> Final Reports on performed Audits on Accounts: <ul style="list-style-type: none"> <li>- CAP 2014, CAP 2016, CAP 2017, CAP 2018 i CAP 2020 no 3011-3-06-131/2 from 11.03.2022</li> <li>- CAP 2014, CAP 2016, CAP 2017, CAP 2018 i CAP 2020 no 3011-4-06-161/3 from 11.03.2024</li> </ul>
<b>DATE OF AUDIT RECOMMENDATION STATUS REPORT</b>	January 2024 Follow-up as a separate activity before issuing AAARs and AAOs.
<b>SOURCE OF THE UPDATE</b>	For the purpose of carrying out the follow-up we have conducted a set of activities: <ul style="list-style-type: none"> <li>• On 18<sup>th</sup> December 2023 we sent to NAO/DMS-NF Table with the summary of findings and recommendations from previous performed audits. We requested from NAO/NF to include into the Tables their Management response on the status of the individual recommendation with the appropriate explanation. We also informed them that they should prepare the evidence on the fulfilment of the individual recommendation which will be provided to us.</li> <li>• On 3<sup>rd</sup> January 2024 we received the information we requested from NAO/NF.</li> </ul> After the analysis of the received responses, documentation collected, we assessed the status of the individual recommendation with the respective explanation.

#### 1. Audit objectives

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

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

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

No	Finding	Recommendation	Priority Level/ Body/-ies concerned by the finding/	Status as at January <sup>2</sup>	Priority level/ New deadline for implementation												
1.	<p><b>Lack of staff, recruitment and retention policy</b></p> <p>(Details: See section 4.1.1 of Final System Audit Report from 20<sup>th</sup> October 2017)</p> <p>During the audit we determined, based on the internal acts on systematisation and organisation of job positions and WLA that in all bodies of managing and operating structure, dealing with OP - Annual Country Action Programme for Montenegro for the year 2014, the number of permanently employed executors is insufficient. We also noted difficulties in retaining staff who during the work in bodies acquired appropriate knowledge and experience.</p> <p>Envisaged Work post related to IPA jobs by Rulebook, result of WLA/2019 and number of the currently employed on the date of the audit) are given in the table below:</p> <table border="1" data-bbox="163 781 743 1323"> <thead> <tr> <th data-bbox="163 781 285 1052">Auditee</th> <th data-bbox="285 781 373 1052">Envisaged work post related to IPA jobs by Rulebook</th> <th data-bbox="373 781 485 1052">Result of WLA/2019</th> <th data-bbox="485 781 743 1052">Currently employed</th> </tr> </thead> <tbody> <tr> <td data-bbox="163 1052 285 1177">NF/NAO SO</td> <td data-bbox="285 1052 373 1177">13 - including NAO</td> <td data-bbox="373 1052 485 1177">13</td> <td data-bbox="485 1052 743 1177">11 (8- LTEC;3 TEC)</td> </tr> <tr> <td data-bbox="163 1177 285 1323">NIPAC Office</td> <td data-bbox="285 1177 373 1323">12 - Including NIPAC</td> <td data-bbox="373 1177 485 1323">12</td> <td data-bbox="485 1177 743 1323">10 (9 – LTEC; 1-TEC)</td> </tr> </tbody> </table>	Auditee	Envisaged work post related to IPA jobs by Rulebook	Result of WLA/2019	Currently employed	NF/NAO SO	13 - including NAO	13	11 (8- LTEC;3 TEC)	NIPAC Office	12 - Including NIPAC	12	10 (9 – LTEC; 1-TEC)	<p>We recommend, as urgently as possible, taking necessary measures and accelerating activities with a view to recruiting lacking number of employees which would further influence better and more efficient management and use of IPA funds. In order to prevent outflow of the key employees and problems created by their leave from IPA bodies, it is necessary to develop factually established policy of staff retention. Such policy would improve systems of promotion, award, professional training as well as other aspects of work. Therefore, we recommend necessity of additional efforts in order to establish policy of staff retention which can respond to the expected scope of work and fluctuation of employees.</p> <p><i>*The progress has already been made in the period between Draft and Final Report. The implementation of the recommendation will be further monitored.</i></p>	<p><b>Intermediate:</b></p> <p>NIPAC Office, CPA/IA, MEDT, MCI</p> <p><b>Major:</b></p> <p>CFCU and MF/PIU</p>	<p>According the responses from the auditees and available documentation we conclude following:</p> <p>NIPAC Office</p> <p>Lack of staff is still evident.</p> <p>We will further monitor implementation of the recommendation.</p> <p>Finding remains open, with an intermediate level of priority.</p> <p>CFCU/IA</p> <p>31 job positions out of 40 envisaged in the WLA 2024 are filled. Taking into regard the role of IA in the MCSS we consider this as significant lack of staff.</p> <p>Finding remains open, with major level of priority.</p> <p>CPA/IA</p> <p>17 job positions out of 23 envisaged in the WLA 2024 are filled. Taking into regard the role of IA in the MCSS we consider this as significant lack of staff.</p> <p>Finding remains open, with increased level of priority, from intermediate to major.</p> <p>MF/PIU:</p>	<p><b>Intermediate:</b></p> <p>NIPAC Office, CPA/IA, MED, MTMA</p> <p><b>Major:</b></p> <p>CFCU and MF/PIU</p> <p>New deadline for implementation:</p> <p><b>IV Q 2024</b></p>
Auditee	Envisaged work post related to IPA jobs by Rulebook	Result of WLA/2019	Currently employed														
NF/NAO SO	13 - including NAO	13	11 (8- LTEC;3 TEC)														
NIPAC Office	12 - Including NIPAC	12	10 (9 – LTEC; 1-TEC)														

<sup>2</sup> Status in accordance with auditor's conclusion.

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

	CFCU	37 - Including Head of IA	37	31 (20-LTEC;11-TEC)			<p>2 out of 4 job positions envisaged in the WLA 2024 are filled.</p> <p>We took into consideration reply of MF and achieved results are highly commendable. Still the WLA for 2024 shows the necessity for 4 employees.</p> <p>Finding remains open, with major level of priority.</p> <p><b>MED/PIU:</b></p> <p>4 out of 7 job positions envisaged in the WLA 2024 are filled. The position of SPO is vacant.</p> <p>Finding remains open, with an intermediate level of priority.</p> <p><b>MTMA/PIU:</b></p> <p>4 out of 6 job positions envisaged in the WLA 2024 are filled. The position of SPO is vacant.</p> <p>Finding remains open, with an intermediate level of priority.</p>	
	DPW	39 - Including Director (Head of IA)	39	31 (16-LTEC;15-TEC)				
	MF	4 - including SPO	4	1 (LTEC)				
	MSDT	9 - including SPO	9	6 (5-LTEC;1-TEC)				
	MTMA	6 - Including SPO	6	6 (5 - LTEC;1-TEC)				
	MEC	5 - including SPO	5	4 (3-LTEC; 1-TEC)				
2.	<p><b>IT Policy – Backup of data</b></p> <p>(Details: See section 4.2.1 of Final System Audit Report from 20<sup>th</sup> October 2017)</p> <p>On the basis of performed on-the-spot checks and conducted interviews, we have found that archiving and backup of data is not performed in accordance with prescribed procedures. There is no properly defined back up storage. So, there is a risk of loss of data in case of error in information systems in which information is destroyed by failures or negligence in storage, transmission, or processing. To mitigate the risk of losing data, the staff from IPA bodies use external hard disks and USB disks for archiving data from their computers. They perform this periodically. Previously mentioned external hard disks are stored in the premises of each IPA body. However, archiving data in this way is not secure enough and is</p>				<p>We recommend providing adequate archiving and back-up of data according to the procedures described in MoP Chapter IT policy in order to prevent data loss or ensure restoring of lost data.</p>	<p><b>Intermediate:</b></p> <p>All IPA bodies</p>	<p>The implementation of recommendation will be monitored.</p> <p>Finding remains open with intermediate level of priority.</p>	<p><b>Intermediate:</b></p> <p>All IPA bodies</p> <p>New deadline for implementation:</p> <p><b>IV Q 2024</b></p>

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

	not in accordance with prescribed procedures for back up and archiving data which are described in MoP, chapter IT policy.				
3.	<p><b>Contingency plan developed</b></p> <p>(Details: See section 4.2.2 of Final System Audit Report from 20<sup>th</sup> October 2017)</p> <p><i>According to the Article 34 of the Government Decree for Information security (OG MNE No. 58/10; 55/15), business continuity plan should be developed and approved.</i></p> <p>All bodies Operating Structure and Management structure of IPA II doesn't have contingency plan developed. There is risk for continuity of operations concerning loss of data, absence of individuals, and some other unpredictable situations.</p>	Development of the contingency plan with clear responsibilities and procedures is necessary.	<b>Intermediate:</b> All IPA bodies	<p><i>The implementation of recommendation will be monitored.</i></p> <p><i>Finding remains open with intermediate level of priority.</i></p>	<p><b>Intermediate:</b></p> <p><i>All IPA bodies</i></p> <p><i>New deadline for implementation:</i></p> <p><b>IV Q 2024</b></p> <p>:</p>
4.	<p><b>Internal audit capacities</b></p> <p>(Details: See section 4.4.1 of Final System Audit Report from 20<sup>th</sup> October 2017)</p> <p>During audit we identified that according Rulebook on internal organization and systematization four work posts have been envisaged in IAD in MSDT including the Head of IAD and three auditors. Currently three employees deal with internal audit matters. Head of the IAD and one senior auditor have Decisions on allocation on work posts in this department; Junior auditor has a temporary contract. All of employees which are dealing with internal audit have the adequate certificate for performing internal audit. Beside audit within MSDT which cover inter alia IB for IPA component III (DPW separate body within MSDT), Minister of the MSDT has signed agreements with additional six state bodies to implement internal audit for them.</p> <p>According Rulebook on internal organization and systematization of MTMA four work posts have been envisaged in IAD including the Head of IAD and three auditors. Currently there are two employees within IAD, one senior and one junior auditor. Senior auditor is acting head of the IAD. Both auditors have Decisions on allocation on work posts in this department and adequate certificate for performing internal audit.</p> <p>According Rulebook on internal organization and systematization of Ministry of Finance seven work posts have been envisaged in IAD including Head of IAD and six auditors (NFD, CFCU and Department for European Integration-PIU are under the Ministry of Finance). Currently five auditors have Decisions on allocation on work posts in this Department and adequate certificate for performing internal audit. However, one auditor is on maternity leave and another is working part time (4 hours) which means that just three employees are dealing with internal audit matters (full time). Beside audit within MF, Minister of the MF has signed agreements with additional seventeen state bodies to implement internal audit for them.</p> <p>According Rulebook on internal organization and systematization four work posts have been envisaged in IAD in MEC, including the head of IAD and three auditors.</p>	In order to ensure timely and effective execution of internal audit function described in their procedures and plans, our recommendation is related to increasing capacities of internal audit with the aim of increasing coverage of audit areas which has a high impact on implementation of IPA funds which will provide management additional assurance about functioning of the IPA MCSS.	<b>Intermediate:</b> IAU	<p><i>According to the reply as well as provided documentation, the IAU is still understaffed. 3 of 4 positions are filled, form which 1 employee is on maternity leave.</i></p> <p><i>Besides above mentioned, according WLA analysis there is necessity for 5 employees and current Rulebook on Internal organization and systematization envisaged 4.</i></p> <p><i>Bearing in mind above mentioned and scope of activities of IAU, there is obvious lack of capacities within IAU and this fact may have an impact on the quantity and/or quality in performing audits.</i></p> <p><i>The finding remains open, with intermediate level of priority.</i></p>	<p><b>Intermediate:</b></p> <p><b>IAU</b></p> <p><i>New deadline for implementation:</i></p> <p><b>IV Q 2024</b></p>

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

	<p>In the IAD is only one auditor employed, with adequate certificate for performing internal audit.</p> <p>Bearing in mind above mentioned and scope of activities of IAD, there is obvious lack of capacities within IADs in all IPA bodies and this fact may have an impact on the quantity and/or quality of audits that are envisaged in annual audit plans. There is a risk that some of the systems, processes or procedures with high impact on overall system will not be subject of the audit and that managers would not have additional assurance about functioning of their systems nor independent review on effectiveness and efficiency of the system.</p>				
5.	<p><b>Reports on implementation</b></p> <p>(Details: See section 4.7.1 of Final System Audit Report from 20<sup>th</sup> October 2017)</p> <p><i>According to the Article 53 of Framework Agreement for IPA II Sectoral Monitoring Committee shall review annual implementation reports, including financial execution of the actions.</i></p> <p><i>According to the Article 9 of Decree on organisation of the indirect management for implementation of Union financial assistance under Instrument for pre-accession assistance NIPAC Office coordinate and draw up annual and final implementation reports as provided in the Law, to be submitted to the NIPAC, after examination by the SMC as well as Article 3 of the Implementing Agreement for CAP 2014 the NIPAC based on the information and reports received from the operating structure ensure timely reporting to the European Commission. The NIPAC can issue guidance to the Implementing Agency and other bodies constituting the operating structure for submitting data for preparation of annual or final implementation reports for the submission to the European Commission.</i></p> <p>MoP Chapter Programme/Action Monitoring in details prescribes procedures related to NIPAC Office responsibilities in respect to preparation and submission of reports on implementation (Semi-Annual, Annual and Final Implementation Report).</p> <p>During the audit performed and based on insight in submitted documentation, we determined that procedures in respect to preparation of Annual Implementation Report for 2016 have not been fully implemented and respected. Namely:  Annual Implementation Report for 2016 has been prepared and submitted to the European Commission in prescribed deadline (by 15th February 2017). However, Annual Implementation Report for 2016 has not been submitted for the reviewing and examination to the Sectoral Monitoring Committee and IPA Monitoring Committee by NIPAC Office;  Annual Implementation Reports for 2016 has not been prepared based on all information, which should be submitted by SPOs/PIUs (Quarterly and Semi-Annual Monitoring Reports have not been prepared).  During 2016 Semi-Annual Implementation Reports have not been prepared by NIPAC Office;</p> <p>In addition to the above, it is evident that procedures in respect to quality information checks and coordination of the reporting requirements have not been implemented. Namely, Quarterly and Semi-Annual monitoring Reports Checklists</p>	<p>We recommend respecting procedures in relation to the preparation and submission Annual Implementation reports, as well as improving communication between NIPAC Office and PIUs.</p>	<p><b>Intermediate:</b></p> <p>NIPAC, Head of NIPAC Office, SPOs</p>	<p><i>Audit Authority auditors took into consideration information submitted by IPA Bodies, no significant progress was made.</i></p> <p><i>Finding remains open, with an intermediate level of priority.</i></p> <p><i>We will further monitor implementation of the recommendation. We consider this finding remains open, with intermediate level of priority.</i></p>	<p><b>Intermediate:</b></p> <p><b>NIPAC, Head of NIPAC Office, SPOs</b></p> <p><i>New deadline for implementation:</i></p> <p><b>Next Quarterly Monitoring and Annual Implementation Reports</b></p>



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

	<p>have not been prepared and signed and Time-Schedule, Guidelines and Instructions have not been issued and submitted to the SPOs/PIUs by NIPAC Office.</p>				
6.	<p><b>Lack of staff and segregation of duties</b></p> <p>Details: See section 4.1.2 of Final System Audit Report from 23<sup>rd</sup> December 2020)</p> <p>According to the Rulebook on internal organization and systematization of the Ministry of Interior, in Directorate for European integration and coordination pre-accession support of EU, 5 working posts are foreseen. By the insight into WLA number of needed employees for 2020 year is 3. The conclusion deriving from the AWP and the WLA are presented in a form of Recruitment Plan. In the period of performing system audit the total number of employees in PIU of Ministry of Interior was 2.</p> <p>Also, since three documents AWP, SAM and QMR are prepared and approved by the same person, supervision is not ensured by applying »four eyes« principle and double signature is not respected.</p> <p>In order to ensure segregation of duties and four eyes principle and considering the needs which are expressed in WLA for 2020, it is necessary to employ staff in accordance with the requirements which are prescribed in Rulebook on Internal Organization and Systematization of the Ministry of Interior.</p>	<p>In order to ensure effective functioning of the PIU and in order to ensure segregation of duties and four eyes principle we recommend taking the measures of filling the vacant posts foreseen in the Rulebook of Internal Organization and Systematization and needs expressed in Work Load Analysis.</p>	<p><b>Intermediate</b></p> <p>Ministry of Interior/PIU</p>	<p><i>Based on auditee's response the lack of staff is still a present issue.</i></p> <p><i>According to the submitted documentation only 2 out of 7 positions are filled.</i></p> <p><i>We will continue to monitor the implementation of the recommendation.</i></p> <p><i>Finding remains open with the increased level of priority from intermediate to <b>major</b>.</i></p>	<p><b>Major</b></p> <p><b>Ministry of Interior/PIU</b></p> <p><i>New deadline for implementation:</i></p> <p><b>IV Q 2024</b></p>
7.	<p><b>Lack of appropriate The Decision on Appointment of Persons</b></p> <p>Details: See section 4.1.1 of Final System Audit Report from 20<sup>th</sup> January 2022</p> <p>At the first session of the newly elected Government of Montenegro which was held on December 7th, 2020 the new Decree on the organization and manner of work of the state administration was adopted. The mentioned Decree has significantly changed the organization of the entire state administration, and thus the Operating Structures that are included in the model of indirect management of EU pre-accession assistance (IPA II).</p> <p>It is not necessary to emphasize that Montenegro is obliged to comply with the provisions set up in the Framework Agreement signed with the European Commission, and all relevant documents, in terms of providing an efficient and effective system for the implementation of pre-accession support programmes (IPA II). Bearing in mind significant governmental changes, it is necessary to adopt a new Decision on Appointment of Persons Responsible for Decentralized/Indirect Management of Pre-Accession Funds of the European Union.</p>	<p>Our recommendation is to adopt new Decision on Appointment of Persons Responsible for Decentralized/Indirect Management of Pre-Accession Funds of the European Union as soon as possible taking into consideration the governmental changes.</p>	<p><b>Major/</b></p> <p>NAO</p>	<p><i>We will continue to monitor the implementation of the recommendation.</i></p> <p><i>Finding remains open with the major level of priority.</i></p>	<p><b>Major</b></p> <p><b>NAO</b></p> <p><i>New deadline for implementation:</i></p> <p><b>as soon as possible</b></p>

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

<p>8.</p>	<p><b>Delays in a process of contracting</b></p> <p>Details: See section 4.1.2 of Final System Audit Report from 20<sup>th</sup> January 2022</p> <p>Financial Agreement for the Annual Country Action Programme for Montenegro for the year 2016 was signed on 22<sup>nd</sup> December 2017. The total estimated cost of Programme CAP 2016 is EUR 26.544.530,00. Addendum of Financing Agreement has been signed on August 8<sup>th</sup> 2020, as per Addendum, the total estimated cost of Programme CAP 2016, under indirect management is EUR 20.316.265,00. Allocated funds Montenegro should have used in the various fields such as: Environment and Climate Action, Strengthening the Competitiveness and Innovation sector of Montenegro.</p> <p>As the deadline for contracting the projects from CAP 2016 has expired on December 22<sup>nd</sup>, 2020, we determined that a significant part of the available funds from this Programme in a total amount of 6.336.118,00 have not been used.</p> <p>Namely, during the audit engagement we noticed that delays exist in all stages of the project lifetime. The main challenge during the contracting phase are delays in evaluation process which resulted in significant delays in relation to the further planned dynamics of contracting.</p> <p>When it comes to capacities in the field of implementation of EU support projects, significant personnel challenges were also identified having in mind that IAs have constantly turnover of the staff and outflow of experienced and trained staff. Above mention for the consequence had non-contracted funds under this program.</p> <p>By the insight into requested documentation and by testing, we determined that IAs still don't respect the deadlines prescribed with all relevant documents and the deadlines which they set for themselves which are also related to the process of contracting. Above mention may lead to the risk of non-contracting funds for future projects.</p>	<p>Our recommendation is to respect the prescribed procedures which are related to the process of contracting specially process of the evaluation in order to conclude the contracts within the deadlines, which influences better and more efficient management and use of IPA funds which are at disposal to Montenegro.</p>	<p><b>Major/</b> CFCU and CPA</p>	<p><i>According to the replies of the IAs, their efforts and according to the fact that for all Annual Actions programs, at the end, the deadlines were respected, we consider this finding closed.</i></p> <p><i>Even we closed the finding we highly recommend improving the procedures as well as cooperation with PIUs.</i></p>	<p>/</p>
<p>9.</p>	<p><b>Lack of Staff</b></p> <p>Details: See section 2.2 of Final Report on Audit of Operation from 20th January 2022</p> <p>The purpose of the contract was, inter alia, procurement, delivery, installation, commissioning, training and warranty for equipment for upgrading 7 existing and establishing 3 new automatic fixed measuring stations for the system for ambient</p>	<p>Having in mind that this station has a special importance we recommend engagement of one employee for the station in Velimlje.</p>	<p><b>Major/</b> MESPU</p>	<p><i>According to the reply from METSDND/PIU no engagement of employee for the station in Velimlje was performed.</i></p> <p><i>Finding remains open with increased level of priority, from intermediate to major.</i></p>	<p><b>Major</b> <b>METSDND</b></p> <p><i>New deadline for implementation:</i></p>

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

	<p>air quality monitoring (<b>one of them is a European Monitoring and Evaluation Programme (EMEP) station.</b></p> <p>EMEP is the co-operative programme for monitoring and evaluation of the long-range transmission of air pollutants in Europe (in officially 'European Monitoring and Evaluation Programme' = EMEP). It is a scientifically based and policy driven programme under the Convention on Long-range Transboundary</p> <p>Air Pollution (CLRTAP) for international co-operation to solve transboundary air pollution problems.</p> <p>The Convention on Long-range Transboundary Air Pollution (LRTAP). signed in 1979, is one of the</p> <p>central means for protection of environment.</p> <p>Having in mind above mention it is not necessary to underline the importance of the EMEP station</p> <p>which is located in Velimlje. Also, this station is the only one that kind in Montenegro.</p> <p>Audit Authority performed On the Spot Check Verification (OTSV) in Velimlje with the representatives of the Institute of Hydrometeorology and Seismology of Montenegro having in mind that they have jurisdiction over this station.</p> <p>Namely, in accordance with relevant documentation, equipment which is obtained through the contract is, inter alia, <i>Container for accommodation and stay of employee working in the EMEP station.</i> During the field work, we determined that above mention equipment is installed in Velimlje, but no one is still</p> <p>employed in this station. Bearing in mind that employment procedures take a long time, we suggest starting with this process as soon as possible in order to fulfill this position and in order to respect the provisions from the Contract.</p>			<p><i>We will continue to monitor the implementation of the recommendation.</i></p>	<p><i>as soon as possible</i></p>
<p>10.</p>	<p><b>Potential non-fulfilment Operation's objective</b></p> <p>Details: See section 2.2.2 of Final Report on Audit of Operation from 29<sup>th</sup> December 2022</p> <p>During the audit we determined that the contractual obligation from Contract CFCU/MNE/176- Supply of hardware for the expansion of existing Server and Storage system's capacity of the Customs Administration, are performed.</p> <p>However, during the On the Spot Check which is performed in Revenue and Custom Administration, we determined that there is no VM WARE license for 4 Servers for blade chassis. This license is necessary in order to provide fully integration of those servers into existing information system. Namely, administration of each separately server is possible, but administration of servers</p>	<p>We recommend that PIU/Ministry of Finance, in coordination with final recipient of assistance – Revenue and Custom Administration, as soon as possible, solve the problem of supply of VMWARE license for Servers for blade chassis, in order to be able to achieve the objective of the Action 3 in order to avoid potential recovery of EU funds.</p> <p>Also, we recommend that PIU, in accordance with its responsibilities defined by MoP, occasionally performs</p>	<p><b>Major/</b> MF/PIU</p>	<p><i>Information about the fulfilment of this obligations as well as proofs-RCA documents were submitted to the Audit Authority in July 2023.</i></p> <p><i>According to the submitted documentation we consider this finding closed.</i></p>	<p>/</p>

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

	<p>or from central point (V Centre) is not enabled. Supplied servers are currently in use as back up variant, in case of failure of the existing server.</p> <p>Consequently, all articles prescribed by relevant regulations (Article 5 of Framework Agreement and Clause 4 Point 2 of the Annex A also of the Framework Agreement, and Part II, Chapter Contract implementation and OTSC of MoP for PIU) were not respected.</p> <p>Bearing in mind the defined objectives for Activity 3.1.2.1 Upgrading of the Customs Information system (CIS) with new functionalities in Action document Support to the rule of Law and fundamental rights sector (IPA 2018 040-218 3 ME ROL) and in Financial Agreement, as well as, the fact that a part of supplied equipment is not fully integrated into existing system, due to lack of the appropriate license, we can conclude that the sustainability of this contract is questionable. Finally, this can lead to the recovery of funds in accordance with Article 7 - Recovery of funds of the Financial Agreement where is stated: (1) In addition to cases referred to in Article 41 of the Framework Agreement, the Commission may recover the funds from the IPA II beneficiary as provided in the Financial Regulation, in particular in case of: (a) the Commission established that objectives of the Programme set out in Annex I are not achieved.</p>	<p>monitoring of sustainability of the contract</p>			
<p>11.</p>	<p><b>Failure to follow procedures - CFCU/MNE/141, CFCU/MNE/060 and CFCU/MNE/176</b></p> <p>Details: See section 4.1.1 of Final System Audit Report from 30<sup>th</sup> December 2022</p> <p>By reviewing the documentation for the Contracts CFCU/MNE/141, CFCU/MNE/060 and CFCU/MNE/176 we determined that deadlines and procedures related to implementation of contacts, regulated by PRAG, Special Conditions of Contracts and MoP were not fully respected.</p> <p>CFCU/MNE/141</p> <p>AA auditors noticed that Draft version of the Final Report was received on 15th November 2021, which is one month before the end of the implementation period (14th December 2021). Final report was received on 30th December 2021. Invoice/Payment request from Contractor was received in the CFCU/IA on 15th March 2022, even though the Final Report has been delivered on 30th December 2021. The Financial Report for the last implementation period was not part of the Final Report and the Invoice did not accompany the Final Report.</p> <p>CFCU/MNE/060</p> <p>AA auditors noticed that Draft version of the Final report was received on 26th October 2021, which is one month before end of the implementation period (26th November 2021). The Final report has been delivered on 21st December 2021.</p> <p>Invoice/Payment request from Contractor was received in the CFCU/IA on 13th April 2022, even though the Final Report has been delivered on 21st December</p>	<p>We recommend respecting reporting procedures and deadlines, regulated by contracts and prescribed procedures.</p> <p>Also, we suggest improving cooperation and communication with PIUs, as well as Contractors, in order to avoid such delays in future.</p>	<p><b>Intermediate/</b> CFCU</p>	<p><i>According to the replies of the IA, their efforts and according to the fact that during the System Audit for 2023 as well as conducted Audit of Operations for the contracts from the sample we have not noticed the deficiencies in the performed procedures, we consider this finding closed.</i></p> <p><b><i>Even we closed the finding we highly recommend improving the procedures as well as cooperation with PIUs.</i></b></p>	<p>/</p>

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

	<p>2021. The Financial Report for the last implementation period was not part of the Final Report and the Invoice did not accompany the Final Report.</p> <p>CFCU/MNE/176</p> <p>By reviewing the documentation, we noticed that CFCU received invoice/payment request on 15 October 2021. OTSC was performed on 26th October 2021. CFCU noticed that Certificates of Origin were missing, were required as additional information/documentation. Contractor submitted Certificate of Origin on 7 December 2021. However, the Provisional Acceptance was signed by all parties on 15 February 2022. The procedure from receiving Certificate of Origin to signing the Provisional Acceptance took a long time.</p>				
12.	<p><b>Inadequate performed control activities</b></p> <p>Details: See section 4.1.2 of Final System Audit Report from 30th December 2022</p> <p>According to the requirements of Annex B – Internal Control Framework from Framework Agreement:</p> <p><i>3a (iii) “Procedures, including checklists, for each step of procurement and grant calls (e.g. technical specifications, evaluation committees, reporting of exceptions etc.) ensuring each member of staff is clear as to their responsibilities in these areas”</i></p> <p>Additionally, according to the MoP procedure V.2.0, which was valid version in the time of performing contract procedures for Service contract – <b>PWA/MNE/IPAII/CAP16/SER/01-908/20-10606/1 Support to Project Preparation for Environment and Climate Change Sector, Montenegro</b> and for Service contract – <b>PWA/MNE/IPA II/CAP17/SER/01-908/21-4474/1 Technical assistance for project preparation of investment projects in the transport sector in Montenegro</b>, it is stated that:</p> <p><i>“procedures specific to each type of procurement are detailed and are supported by checklists which should be applied before forwarding any documents to the EUD for ex-ante control”. Also, Checklists are being used by the staff and verified by the line management before forwarding any documents to the Head of IA for approval and quality control is performed by the Quality Assurance Division reporting directly to Head of IA.</i></p> <p><i>The detailed checklists are given as annexes in the MoP procedures V.2.0, depending on the type of contract.</i></p> <p>During the audit performed and based on insight in submitted documentation for above mentioned contracts we concluded that:</p> <p><b>For the Service contract – PWA/MNE/IPAII/CAP16/SER/01-908/20-10606/1</b></p> <p>- CL for PIN is prepared but not signed and dated by any relevant person or verified by Head.</p>	<p>We recommend respecting the procedures prescribed by the MoP and given annexes, to ensure adequate cross-checking controls.</p>	<p><b>Intermediate/</b></p> <p>CPA/IA</p>	<p><i>We took into consideration replies as well as documentation provided, additionally, during the System Audit for 2023 as well as conducted Audit of Operations for the contracts from the sample we have not noticed the deficiencies in the performed procedures in the procurement procedures.</i></p> <p><i>We consider this finding <b>closed</b>.</i></p>	/

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

	<p>- CL for CN was prepared, but not signed and dated by Head of Quality Assurance Division.          - CL for resubmission of CN was prepared, but not signed and dated by Head of QAD.          - CL for TD was prepared, but not signed and dated by Head of QAD.          - CLs for revised TD were not filled in by CM2 and QAS, but they are signed by all except by Head of QAD.          - CL for ToR was not appropriate filled in, filled in only by CM1 and signed by all except by Head of QAD          - We were not provided with CL of Ev.com.          - We were not provided with CL of Contract Dossier.</p> <p>Regarding the Service contract – <b>PWA/MNE/IPA II/CAP17/SER/01-908/21-4474/1 Technical assistance for project preparation of investment projects in the transport sector in Montenegro</b></p> <p>CL for the CN was signed and approved by the Head of QA Division. CL is not appropriately filled in. Not signed by all relevant persons.          - CL for TD was performed for the both versions of TD (first version was rejected) but the CL it is not dated and sign by the Head of QA Division. Also, the columns in the CL are not completely filled in.          - CL for the CN was signed and approved by the Head of QA Division but it is not signed by all relevant persons. Also, the CL is not appropriately filled in.          - We were not provided by CL for Tender Opening Report.          - We were not provided by CL for the Evaluation Report.          - We were not provided by CL for Contract Dossier.          - We were not provided by CL for Award Notice.</p> <p>According to the above mentioned, neither one check was performed adequately or was not performed at all. Performing controls is necessary in order to ensure that control activities that contribute to the mitigation of risks to the achievement of objectives are identified and developed at all levels of the organization.</p>				
13.	<p><b>Lack of audit trail</b></p> <p>Details: See section 4.1.3 of Final System Audit Report from 30th December 2022</p> <p>By the insight into Request for Funds to the EC for Annual Action Programme for Montenegro for 2018 for Budget line 2018/040-220 and Request for Funds to the EC for Annual Action Programme for Montenegro for 2018 for Budget line 2018/040-218 with supporting documents, arrangements with the Central Bank for transferring of EU part of funds based on the DMS orders we have established the following:</p> <p>- Even the DMS orders for transferring EU part of funds were prepared correctly, funds in the amount of 3 844 832.38 received to the Central Bank of Montenegro</p>	We recommend providing adequate audit trail.	<b>Intermediate/</b>  NFD	As it is stated in the conclusion form February 2023 we took into consideration and agreed with all your answers and documentation provided, therefore we changed our recommendation in:  “Adequate audit trail should have been ensured, in accordance with Article 32 of Framework Agreement. Attached e-mail communication with CBCG cannot be considered as relevant evidence. It is necessary to provide official letter from the CBCG that explains the situation occurred, especially when it comes to the fact that transaction seen on the Analytical Card was	<b>Intermediate</b>  <b>NFD</b>  <i>New deadline for implementation:</i>  <b>II Q 2024</b>

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

	<p>according to the Request for Funds to the EC for Annual Action Programme for Montenegro for 2018 for Budget line 2018/040-220, were first recorded in the account MF-NF-IPA-CAP 2018 (account of the budget line 2018/040-218) instead of the account MF-NF-IPA-CAP 2018 OBJECTIVE 2 (account of the budget line 2018/040-220). It was corrected the same day, in the way that the funds were transferred from MF-NF-IPA-CAP 2018 to the MF-NF-IPA-CAP 2018 OBJECTIVE 2;</p> <p>- By the insight into accounting records, we noticed that there is no audit trail that above mentioned happened.</p>			<p><i>not recorded in the bank statement of 25/5/2022."</i></p> <p><i>We will monitor implementation of recommendation.</i></p>	
14.	<p><b>Incorrect amount of "Total Amount Disbursed" in AFR</b></p> <p>Details: See section 2.1 of Report on Audit of Accounts from 13th March 2023</p> <p>By the performed checks of relevant documentation and the accounting records, regarding to the total amount disbursed, total amounts recognized, total amount of open pre-financing and the amount of recoveries, we determined that amounts of Total Amount Disbursed was not properly reported in the AFR for Programme CAP 2014 (2014/032-803) for 2022.</p> <p>By comparing the AFR and the accounting records, we concluded that the total amount paid and total amount of recoveries were adequately treated in accounting records of CFCU. However, it was not correctly presented in the AFR for 2022. Namely, Total amount disbursed was presented in the amount more than it should be. This amount is related to the amount of executed recovery for Programme CAP 2014 2014/032-803 in total amount of 101,315.20€ (EU contribution 91,549.88€, national contribution 9,765.32).</p>	<p>In order to ensure complete and accurate Final statement of expenditure, we recommend that total disbursed amount should be presented as follows: Total amount disbursed/paid = pre-financing payments + amount of invoices directly paid – recoveries, in relation to correction of item Total Disbursed Amount regarding the CAP 2014(2014/032-803), in the total amount of 101,315.20€, as we stated in finding.</p>	<p><b>Intermediate/ NFD</b></p>	<p><i>According to the submitted documentation we consider this finding closed.</i></p>	
15.	<p>Incorrectly presented item "Total Contracted Amount" in AFR1</p> <p>Details: See section 2.2 of Report on Audit of Accounts from 13th March 2023</p> <p>Reviewing the data presented in the Annual Financial Report for CAP 2020 (2020/042-145)</p> <p>and data entered into accounting system of CFCU, discrepancy related to the presented Total</p> <p>Amount Contracted, has been determined.</p> <p>In the Annual Financial Report for CAP 2020 (2020/042-145) for 2022, Total Amount</p> <p>Contracted was reported as follows:</p> <p>➤ EU contribution 1,246,534.70€;</p>	<p>We recommend presenting the Total Contracted Amounts by sources of financing in the Annual financial report, as it is specified in Annex 4 (a) Financing agreement which correspond to the amounts entered in the accounting system IA/CFCU for CAP 2020 (2020/042-145).</p>	<p><b>Intermediate/ NF and IA/CFCU</b></p>	<p><i>According to the submitted documentation we consider this finding closed.</i></p>	

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

<p>➤ National contribution 219,976.72€;                  ➤ Other sources 0.00€                  The total contracted amount recorded in the accounting system of CFCU for CAP 2020 (2020/042-145) is as follows:</p> <p>➤ EU contribution 1,246,534.71€;                  ➤ National contribution 219,976.72€;                  ➤ Other sources 136,705.17 €.</p> <p>Based on the above mention, we can conclude that in AFR1 for 2022 IPA II Action Programmes CAP 2020 (2020/042-145) the amount of Other sources was not presented in the field Total Amount Contracted, which is not in accordance with the requirements of Annex 4 (a) of the Financing agreement for CAP 2020 (2020/042-145).</p>				
---	--	--	--	--

### 2. Conclusion on audit objectives

During the follow up 6 findings out of 15 were closed. Open findings/recommendations will be follow up in the forthcoming period.  
 During the follow up we have concluded that there was a delay in implementation of the recommendations.

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

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



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

Not applicable.

**8. OTHER INFORMATION**

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

Not applicable.

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

Not applicable.

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

Not applicable.

**9. OVERALL LEVEL OF ASSURANCE**

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

During 2023 the AA carried out system audit for CAP 2016, CAP 2017, CAP 2018 and CAP 2020 and four audits of operations (for CAP 2016, CAP 2017, CAP 2018 and CAP 2020). In the period January 2024 the Audit Authority regularly performed follow-up (which also includes CAP 2014) of the findings and recommendations given in the course of previous audits.

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

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

As a result of the system audit, the management, control and supervision systems established for IPA II CAP 2016, 2017, 2018, 2020 are assessed as „works, but some improvement(s) are needed“. Therefore, it is appropriate to issue an unqualified opinion on the proper functioning of the MCSS. Based on performed audits of operations we have obtained reasonable assurance that the audited expenditure declared are in all material aspects, legal and regular. During the audit, no transaction findings were identified. Therefore, it is appropriate to issue an unqualified opinion on the legality and regularity of expenditure.

The assurance on the accounts is based on the results of the audit of accounts as described in section 6.2 of this AAAR. Based on the audit work performed we have obtained reasonable assurance on reliability of the annual financial reports or statements/annual accounts for the accounting year 2023 for: CAP 2014 (2014/032/022 and 2014/032-803), CAP 2016 (2016/037-896), CAP 2017(2017/040-216 and 2017/039-816), CAP 2018 (2018/040-218 and 2018/040-220) and CAP 2020 (2020/042-145).

Namely, during the audit performed regarding to the total amount disbursed, total amounts recognized, total amount of open pre-financing and the amount of recoveries, we determined that “Total Amount Disbursed” was not properly reported in the ARF 1 for Programme CAP 2016 (2016/037-896), CAP 2017/039-816; CAP 2018 2018/040-218 and 2018/040-220 for 2023. By comparing the AFR 1 and the accounting records, we concluded that mentioned categories were adequately treated in accounting records of IA. However, during the preparation of AFR (which is in jurisdiction of NFD), there was an inadequate treatment of individual categories.

Bearing in mind above mentioned, we consider that nature of this findings cannot affect to reasonable assurance on reliability of the AFR for CAP 2016, CAP 20217 and CAP 2018 for accounting year 2023, therefore, it is appropriate to issue an unqualified opinion.

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

Not applicable.

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

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

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

Not applicable.

## **10. TABLE FOR DECLARED EXPENDITURE AND SAMPLE AUDITS**

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

Fund	Reference (CCI)	Programme	A Expenditure declared to the Commission in reference to the year	B Expenditure in reference to the financial year audited for the random sample		C Total number of units in the population	D Number of sampling units for the random sample	E Amount and percentage (error rate) of irregular expenditure in random sample		F Total projected error rate	G Corrections implemented as a result of the total error rate	H=F-G Residual total error rate	GI Other expenditure audited	JH Amount of irregular expenditure in other expenditure sample
				Amount	%			Amount	%					
	C (2014/032/022 and 2014/032-803)	Annual Country Programme for Montenegro for the year 2014	/	/	/	/	/	/	/	/	/	/	/	/
	C (2016/037-896)	Annual Country Programme for Montenegro for the year 2016	4,530,600.14	505,290.87	11.15%	13	3	0.00	0.00%	0.00%	0.00	0.00	/	/
	C (2017) (2017/040-216)	Annual Country Programme for Montenegro for the year 2017	488,408.54	230,068.42	47.11%	9	3	0.00	0.00%	0.00%	0.00	0.00	/	/
	C (IPA/2018-040-220)	Annual Country Programme for Montenegro for the year 2018	222,456.42	214,456.42	96.40%	2	1	0.00	0.00%	0.00%	0.00	0.00	/	/
	C (2020/042-145)	Annual Country Programme for Montenegro for the year 2020	344,023.10	344,023.10	100%	2	2	0.00	0.00%	0.00%	0.00	0.00	/	/