



**MONTENEGRO
AUDIT AUTHORITY**

Nº: 3011-4-06-187

Date: 15th March 2024

ANNUAL AUDIT ACTIVITY REPORT

OF THE AUDIT AUTHORITY FOR

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

FOR THE PERIOD

1st JANUARY 2023 – 31st DECEMBER 2023

Podgorica, March 2024

Contents

1. INTRODUCTION.....	5
1.1 Details of the responsible Audit Authority and other bodies that have been involved in preparing the Report	5
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)	5
1.3 Identification of the sector/policy area(s) covered by the report and of its/their operating structure and management structure.....	6
1.4 Description of the steps taken to prepare the report and to draw the audit opinion.....	7
2. SUBSTANTIAL CHANGES IN MANAGEMENT AND CONTROL SYSTEMS.....	7
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.....	7
2.1.1 Changes in the MCS in Montenegro since last Annual Audit Activity Report	8
2.1.2 Changes in the MCS in Republic of Kosovo since last Annual Audit Activity Report.....	9
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	9
3. CHANGES TO THE AUDIT STRATEGY	9
4. SYSTEMS AUDITS.....	9
4.1. Details of the bodies that have carried out system audit	9
4.2 Summary table of the audits carried out, with the indication of the authorities/bodies audited, the assessment of the key requirements for each body, issues covered and comparison to the audit planning	10
4.3 Description of the basis for selection of the audits in the context of the audit strategy	11
4.4 Description of the principal findings and conclusions drawn from the audit work for the management and control system and their functioning	12
4.5 Description of specific deficiencies related to the management of financial instruments	13
4.6 Level of assurance obtained following the system audit (low/average/high) and jurisdiction .	13
5. AUDITS OF SAMPLES OF TRANSACTIONS.....	13
6. AUDITS OF THE ANNUAL FINANCIAL REPORTS OR STATEMENTS/ANNUAL ACCOUNTS	13
6.1 Indication of the authorities/bodies that have carried out audits of the annual financial reports or statements/annual accounts.	13
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.....	13

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.....	19
6.4 Indication of whether any problems identified were considered to be systemic in nature, and the measures taken.....	19
7. FOLLOW-UP OF PREVIOUS YEARS' AUDIT ACTIVITY	20
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.....	20
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.	24
8. OTHER INFORMATION	24
8.1 Information on reported fraud and suspicions of fraud, together with the measures taken. ..	24
8.2 Subsequent events occurred after the submission of the declaration of expenditure and financial statements and before the transmission of the annual audit activity report under Art. 12 (3) of Commission Implementing Regulation (EU) No 447/2014 to the Commission and considered when establishing the level of assurance and opinion by the audit authority.	24
8.3 Any other information that the audit authority considers relevant and important to communicate to the Commission, in particular to justify the audit opinion, is reported in this section.....	24
9. OVERALL LEVEL OF ASSURANCE	24
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.....	24
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.....	25
9.3 Assessment of the corrective action necessary both from a system and financial perspective.25	
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.	25
10. TABLE FOR DECLARED EXPENDITURE AND SAMPLE AUDITS	26

List of abbreviation

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

1. INTRODUCTION

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

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

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

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

The Audit Authority is responsible for verifying:

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

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

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

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

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

Pursuant to Article 3(f) of the Framework Agreement between Montenegro and the European Commission on the arrangements for implementation of Union financial assistance to Montenegro under the Instrument for Pre-accession Assistance (IPA II), reference period for this Annual Audit Activity Report is financial year and covers the period from 1st January 2023 to 31st December 2023.

In the period May 2023 – January 2024 Audit Authority performed system audit of functioning of Management, Control and Supervision System established for implementation of IPA II 2014-2020 CBC Programme "Montenegro-Kosovo". Also, the follow up of the findings and recommendations given in the course of previous audits was included in the system audit engagement.

Based on level of implementation of IPA II 2014-2020 CBC Programme "Montenegro-Kosovo", as well as in accordance with adopted Audit Strategy for period 2023-2025 and results of performed risk assessment, the following bodies being part of the management, control and supervision system and key requirements were covered by the system audit:

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

Bearing in mind that no expenditures were declared during the year 2023, the Audit Authority has not been in position to perform audit of transactions/operations regarding the financial year 2023.

At the end of February and beginning of March 2024, Audit Authority performed audit of the annual financial reports for the year 2023 and assessment of the Management declaration for the respective Programme.

NAO submitted Annual Financial Report for 2023 on 14th February 2024.

The amounts declared in the Annual Financial Report for 2023 are presented in the table below:

Programme Reference	Financing Agreement contract number	Total Amount Disbursed		Total Costs Recognised		Total Open Pre-financing		Bank Balances (EU contribution)	Forecast disbursements
		EU contribution	Other sources	EU contribution	Other sources	EU contribution	Other sources		
CBC MNE-KOS 2014	2014/037-592	829.805,08	0,00	829.805,08	146.584,81	0,00	0,00	3.358,64	0,00
CBC MNE-KOS 2015	2015/038-161	1.059.327,86	0,00	1.059.327,86	189.565,16	0,00	0,00	122.872,40	0,00
CBC MNE-KOS 2016	2016/038-182	1.023.890,90	0,00	448.509,54	79.226,01	575.381,36	0,00	173.585,31	109.760,63
CBC MNE-KOS 2017	2017/038-183	695.942,09	0,00	363.291,74	64.110,30	332.650,35	0,00	120.736,14	71.203,09
CBC MNE-KOS 2018	2018/041-472	837.235,21	0,00	0,00	0,00	837.235,21	0,00	122.764,79	265.412,87
CBC MNE-KOS 2019	2019/041-474	641.178,10	0,00	0,00	0,00	641.178,10	0,00	318.821,90	454.780,36
CBC MNE-KOS 2020	2020/041-475	584.969,09	0,00	0,00	0,00	584.969,09	0,00	279.030,91	370.762,01

During the audit AA verified whether the Annual Financial Reports/Financial Statements give a true and fair view as well as the completeness, accuracy and veracity of the annual financial reports or statements and the underlying annual accounts. The audit of accounts in respect of accounting year 2023 has been carried out in the second half of February and beginning of March 2024.

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

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

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

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

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

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

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

With a view to drawing up an audit opinion, Audit Authority assessed results of audit activities from the audits of management, control and supervision system performed during 2023, result of follow up of the findings and recommendations, results of audit of annual financial reports for 2023 and assessed the consistency of the management declaration with regard to performed audit work.

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

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

2. SUBSTANTIAL CHANGES IN MANAGEMENT AND CONTROL SYSTEMS

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

During 2023 and at the beginning of 2024, the NAO informed the European Commission and Audit Authority about substantial and planned changes in the system. The following changes occurred in 2023 and early 2024:

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

– Rulebook on internal organization and systematization of the Ministry of European Affairs

At the session held on 21st December 2023, the Government of Montenegro adopted a new Rulebook on internal organization and systematization of the Ministry of European Affairs. According to new Rulebook Directorate for EU Funds is divided into two directorates: Directorate for European Territorial Cooperation (CBC) and Directorate for Coordination of EU financial assistance.

Deputy NAO informed European Commission and Audit Authority on these changes on 27th February 2024 (Letter N^o: 08-908/24-951)

– National IPA Coordinator

With the establishment of a new Government, the mandate of the State Secretary/NIPAC in the Ministry of European Affairs Ms Milena Žižić was terminated. At the session held on 18th January 2024, the Government of Montenegro gave its consent to the proposal regarding the appointment of Mr Bojan Božović, new State Secretary in the Ministry of European Affairs, on the position of National IPA Coordinator.

Deputy NAO informed European Commission and Audit Authority on these personal changes on 27th February 2024 (Letter N^o: 08-908/24-951)

– Deputy National IPA Coordinator

At the session held on 29th December 2023, the Government of Montenegro gave its consent to the proposal regarding the appointment of Mr Bojan Vujović as the Deputy NIPAC/Head of NIPAC Office /Acting Director General of Directorate for Coordination of EU financial assistance.

Deputy NAO informed European Commission and Audit Authority on these personal changes on 27th February 2024 (Letter N^o: 08-908/24-951)

– National Authorising Officer

The mandate of Ms Ana Raičević as the Secretary General in the Ministry of Finance and National Authorising Officer was terminated at the Government session held on 2nd February 2024. The function of NAO was performed by Ms Anja Amidžić, Deputy NAO until 8th February 2024, when the Government of Montenegro appointed Ms Milica Adžić, the State Secretary in the Ministry of Finance, as the National Authorising Officer.

Deputy NAO informed European Commission and Audit Authority on these personal changes on 27th February 2024 (Letter N^o: 08-908/24-951)

– Head of Operating Structure

At the session held on 29th December 2023, the Government of Montenegro gave its consent to the proposal regarding the appointment of Mr Miloš Marković as the Head of Operating Structure/Acting Director General of Directorate for European Territorial Cooperation within Ministry of European Affairs.

Deputy NAO informed European Commission and Audit Authority on these personal changes on 27th February 2024 (Letter N^o: 08-908/24-951)

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

At the session held on 14th December 2023, the Government of Montenegro terminated the mandate of the Director General of Directorate for Finance and Contracting of the EU Assistance Funds – Ms Jelena Davidović. At the session held on 11th January 2024, Ms Sanja Bečanović was appointed as Acting Director General.

Deputy NAO informed European Commission and Audit Authority on this personal change on 27th February 2024 (Letter N°: 08-908/24-951)

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

During 2023, the following changes occurred in the Kosovo Operating structure:

– Head of Operating Structure and Head of CBC Body

According to the Decision of Minister of Ministry of Local Government Administration from 1st August 2023 Mr Jeton Qela was appointed as Acting Secretary General in the Ministry of Local Government Administration and Acting Head of Operating Structure of Kosovo. Mr Fatmire Berisha was appointed as a new Head of CBC Body of Kosovo.

Audit Authority was informed about these changes by e-mail sent by Montenegrin OS on 14th August 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

The changes that occurred in MCSS in 2023 and early 2024 have been communicated to the European Commission and the Audit Authority. Changes have been assessed by Audit Authority and we can confirm their compliance with Article 7 of Commission Implementing Regulation (EU) N° 447/2014.

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

3. CHANGES TO THE AUDIT STRATEGY

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

The Audit Strategy for IPA II 2014-2020 CBC Programme "Montenegro – Kosovo" was prepared and submitted to the European Commission with a copy to the NAO in November 2022. The Audit Strategy was prepared on a tri-annual basis for period 2023-2025 following the model in Annex G of Montenegrin Framework Agreement and approved by General Auditor after having obtained the opinion of GoA members.

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

4. SYSTEMS AUDITS

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

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

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

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

Audit period	1. Programme (CCI and title)	2. Audit Body	3. Audited Body(ies)	4. Date of the audit	5. Scope of the audit	6. Principal findings and conclusions	7. Problems of systemic character and measures taken	8. Estimated financial impact (if applicable)	9. State of follow-up (closed /or not)
01.01.2023.-31.12.2023.	IPA II 2014-2020 Cross-Border Cooperation Programme Montenegro-Kosovo (C (2014) 9307) <i>CRIS N°:</i> 2014/037-592 2015/038-161 2016/038-182 2017/038-183 2018/041-472 2019/041-474 2020/041-475	Audit Authority of Montenegro + Goa members	1.NFD 2.CA/CFCU 3.Control Body + Follow up in all bodies within MCSS of the IPA II 2014-2020 CBC Programme Montenegro-Kosovo	April 2023 – January 2024	-3(a) Selection and development of control activities – NFD, CA/CFCU, CB; - Follow up of open findings from previous audits - all bodies within MCSS	No new findings identified <i>Audit conclusion:</i> Category 2 - Works, but some improvements are needed. For more details please refer to the points 4.4 and 7 of this report	–	–	–

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

National Fund Division (NFD):

- 3(a) Selection and development of control activities

Contracting Authority (CA):

- 3(a) Selection and development of control activities

Control Body (KOS CB)

- 3(a) Selection and development of control activities

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

The system audit encompassed the period from 1st August 2022 to 31st December 2023. The audit was performed in the period from 28th April 2023 until 16th January 2024. The Final Audit Report was issued and submitted to Deputy National Authorising Officer, Deputy National IPA Coordinator of Montenegro, National IPA Coordinator of Kosovo, Head of Operating Structure in Montenegro and Head of Operating Structure in Kosovo on 29th January 2024.

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

For the purpose of detailed defining of the scope of the audit, during the preparation of Audit Strategy for period 2023-2025 the Audit Authority performed a detailed risk assessment to determine the bodies and ICF area which will be covered by system audit. Additionally, in order to define the key requirements within each area which will be encompassed by the appropriate audit activities in particular body, we performed risk assessment at the level of each requirement during system audit engagement planning.

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

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

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

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

- National Fund Division (NFD),
- Contracting Authority (CA) and
- Control Body (CB).

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

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

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

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

The outcome of the audit process is summarized in the Final system audit report. No new findings were identified in respect to MCSS.

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

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

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

IPA Body Audit area	NFD	CA/CFCU	CB KOS	TOTAL
3(a)	1	2	2	2
TOTAL	1	2	2	2

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

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

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

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

Not applicable.

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

Not applicable.

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

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

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

According to the results of the system audit conducted during 2023 MCSS established for implementation of the IPA II 2014-2020 CBC Programme "Montenegro-Kosovo" has been classified in **Category 2** that is it **'works, but some improvements are needed'**. Therefore, the level of assurance obtained from the system is average.

5. AUDITS OF SAMPLES OF TRANSACTIONS

Not applicable. Bearing in mind that no expenditures were declared during the year 2023, the Audit Authority has not been in position to perform audit of transactions/operations regarding the financial year 2023.

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

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

The audit of the annual financial reports or statements/annual account in the framework of IPA II 2014-2020 CBC Programme "Montenegro-Kosovo" was conducted by the Audit Authority of Montenegro according to Audit Strategy 2023-2025.

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

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

The NAO submitted to the Commission, in accordance with Article 59(2) of the Framework Agreement, the Annual Financial Reports for Action and CBC Programmes for Montenegro, managed under

indirect management on 14th February 2024 including the CBC Programmes “Montenegro-Kosovo” for years 2014-2020.

The amounts declared in the Annual Financial Report for 2023 are presented in the table below:

Programme Reference	Financing Agreement contract number	Total Amount Disbursed		Total Costs Recognised		Total Open Pre-financing		Bank Balances (EU contribution)	Forecast disbursements
		EU contribution	Other sources	EU contribution	Other sources	EU contribution	Other sources		
CBC MNE-KOS 2014	2014/037-592	829.805,08	0,00	829.805,08	146.584,81	0,00	0,00	3.358,64	0,00
CBC MNE-KOS 2015	2015/038-161	1.059.327,86	0,00	1.059.327,86	189.565,16	0,00	0,00	122.872,40	0,00
CBC MNE-KOS 2016	2016/038-182	1.023.890,90	0,00	448.509,54	79.226,01	575.381,36	0,00	173.585,31	109.760,63
CBC MNE-KOS 2017	2017/038-183	695.942,09	0,00	363.291,74	64.110,30	332.650,35	0,00	120.736,14	71.203,09
CBC MNE-KOS 2018	2018/041-472	837.235,21	0,00	0,00	0,00	837.235,21	0,00	122.764,79	265.412,87
CBC MNE-KOS 2019	2019/041-474	641.178,10	0,00	0,00	0,00	641.178,10	0,00	318.821,90	454.780,36
CBC MNE-KOS 2020	2020/041-475	584.969,09	0,00	0,00	0,00	584.969,09	0,00	279.030,91	370.762,01

During the audit AA took into consideration the results from the system audits regarding the design and operating effectiveness of the management and control (MCSS) in the process of preparing and submitting of the Annual Financial Reports carried out in the National Fund Division (NF) and CFCU and results of follow up of findings issued in the previous audits. Bearing in mind that no expenditures were declared during the year 2023, the Audit Authority has not been in position to perform audit of transactions/operations regarding the financial year 2023.

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

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

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

Audit was performed using the Checklist for audit of accounts (Annex 4c of the AA MoP). Comparison and testing data were carried out on Annual Financial Reports – (Annexes 4a and 4b of Financial Agreements), IA Requests for Funds, IA Financial Reports Register, Quarterly Progress Report on

contracts and payments, Written Approval Letters, IA payment orders, Payment books, IA Cash flow statements, Bank statements and IA Accounting records in the General ledger.

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

See reconciliation table below:

Programme/Grant beneficiary				NF Accounting System														IA/CFCU									
Name of allocation	Current contract value/ EU part	Current contract value/ Other sources	Source	Payment Request by Grant beneficiary	RF from IA	Record in NF Acc system	Bridge Financing	Record in NF Acc system	RFs to EC	Record in NF Acc system	Bank statement MF NF-IPA Acc	Record in NF Acc system	Bank statement State Treasury Main Acc	Record in NF Acc system	Financial Forecast	Cost recognised EU part	Calculation by AA	Payment Order	Bank statement	Record in CFCU Acc system	Pre-financing/Final payment paid	Pre-financing/ Final payment cleared	Open pre-financing	Calculation by AA	Recovery by AA	Recovery by CFCU	
CBC MNE-KSV 2014	833,163.72	147,177.77	Pre-financing	829,805.08	829,805.08	829,805.08	13,209.61	13,209.61	829,805.08	829,805.08	829,805.08	829,805.08	829,805.08	829,805.08	0.00	829,805.08	829,805.08	829,805.08	829,805.08	829,805.08	829,805.08	829,805.08	0.00	0.00	0.00	0.00	
			Further pre-financing																								
			Final payment																								
CBC MNE-KSV 2015	1,186,829.66	212,209.06	Pre-financing	1,063,957.26	1,063,957.26	1,063,957.26	62,343.56	62,343.56	1,063,957.26	1,063,957.26	1,063,957.26	1,063,957.26	1,063,957.26	1,063,957.26	0.00	1,059,327.86	1,059,327.86	1,063,957.26	1,063,957.26	1,063,957.26	1,063,957.26	1,063,957.26	1,059,327.86	0.00	0.00	4,629.40	4,629.40
			Further pre-financing																								
			Final payment																								
CBC MNE-KSV 2016	1,197,476.21	188,195.32	Pre-financing	1,023,890.90	1,023,890.90	1,023,890.90	0.00	0.00	1,023,890.90	1,023,890.90	1,023,890.90	1,023,890.90	1,023,890.90	1,023,890.90	176,109.10	448,509.54	448,482.42	917,678.17	917,678.17	917,678.17	1,023,890.90	448,509.54	575,381.36	575,408.48	27.12	0.00	
			Further pre-financing																								
CBC MNE-KSV 2017	816,678.23	167,464.47	Pre-financing	695,942.09	695,942.09	695,942.09	0.00	0.00	695,942.09	695,942.09	695,942.09	695,942.09	695,942.09	695,942.09	297,626.98	363,291.74	363,291.74	695,942.09	695,942.09	695,942.09	695,942.09	695,942.09	363,291.74	332,650.35	332,650.35	0.00	0.00
			Further pre-financing																								
CBC MNE-KSV 2018	1,200,000.00	274,436.06	Pre-financing	837,235.21	837,235.21	837,235.21	0.00	0.00	837,235.21	837,235.21	837,235.21	837,235.21	837,235.21	837,235.21	265,412.87	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
CBC MNE-KSV 2019	1,200,000.00	223,905.01	Pre-financing	641,178.10	641,178.10	641,178.10	0.00	0.00	641,178.10	641,178.10	641,178.10	641,178.10	641,178.10	641,178.10	454,780.36	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
CBC MNE-KSV 2020	1,079,999.95	318,564.20	Pre-financing	584,969.09	584,969.09	584,969.09	0.00	0.00	584,969.09	584,969.09	584,969.09	584,969.09	584,969.09	584,969.09	370,762.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

CBC MNE-KSV 2015* 4.629,40 € is amount of initiated recovery for Contract CFCU/MNE/067. However, the amount has not been recovered yet.

CBC MNE-KSV 2016* 27,12 € is total amount of EU part expenditures which was not included in the AFR for 2023

During the audit, no findings which have an influence on the completeness, accuracy and veracity of the amount reported in annual accounts have been identified for CBC Programme MNE-KSV for the years 2014, 2016, 2017, 2018, 2019 and 2020.

As for CBC programme MNE-KSV for the year 2015, we have identified and documented the following audit finding:

➤ **Finding N° 1: Incorrect amount of “Total Amount Disbursed” in AFR**

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 CBC MNE-KOS 2015 (C2015/038-161).

By comparing the AFR 1 and the accounting records, we concluded that “Total Amount Disbursed” was adequately treated in accounting records of CFCU. However, it was 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 CFCU. Difference in total amount of **4,629.40 €** 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>			
CBC MNE-KOS 2015 (C2015/038- 161)	A	B	Difference
	Annual Financial Report	Record in accounting system IA and NFD	A-B
EU contribution	1,059,327.86	1,063,957.26	-4,629.40
Other sources	0.00	0.00	0.00
TOTAL	1,059,327.86	1,063,957.26	-4,629.40

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.

- Follow up of previous year’ audit of accounts

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

Results of follow up are presented in table below:

N°	Findings identified during the audit of accounts 2022	Status in February 2024	Priority level and new deadline for implementation																							
1.	<p>Influence on the completeness, accuracy and veracity of the Annual Financial Reports</p> <p>Reviewing the Annual Financial Report for 2022 it has been determined that part of financial correction identified during Audit of Operation have not been used into account which is not in accordance with the Framework Agreement, Article 36 - Examination and acceptance of accounts procedures, Paragraph 2 ” The examination and acceptance of accounts procedure shall consist of:</p> <p>...c) the analysis of the opinion sent by the audit authority on the statement of expenditure supported, where appropriate, by an audit activity report“.</p> <p>Namely, in the Final Audit of Operation Report No: 3011-2-06-129, from 13th February 2023, it is concluded that costs related to the budget line 4. Local office (4.1.1 Vehicle costs MNE) and corresponding indirect costs are ineligible in total amount of 126,23€ (EU part: 107,28€; other sources: 18,95€) for CBC Programme “Montenegro-Kosovo” for the year 2016, Contract CFCU/MNE/152. The overview of the ineligible costs is given in the following table:</p> <table border="1" data-bbox="151 1003 949 1451"> <thead> <tr> <th>Contract</th> <th>Invoice Number</th> <th>Ineligible amount</th> <th>EU part of the Ineligible amount</th> <th>Indirect costs (7%)</th> <th>EU part of the Indirect costs</th> </tr> </thead> <tbody> <tr> <td rowspan="2">CFCU/MNE/152 BL 4.1.1 Vehicle costs MNE</td> <td>6357</td> <td>88,15 €</td> <td>74,92 €</td> <td>6,17 €</td> <td>5,24 €</td> </tr> <tr> <td>NŽ-15679/2021</td> <td>29,82 €</td> <td>25,34 €</td> <td>2,09 €</td> <td>1,78 €</td> </tr> <tr> <td>Total</td> <td></td> <td>117,97 €</td> <td>100,26 €</td> <td>8,26 €</td> <td>7,02 €</td> </tr> </tbody> </table> <p>On the basis of received Final Audit of Operation Report the IA/CFCU didn't issue Updated Written Approval Letter with clarification and/or Notification letter to inform Coordinators of the projects/beneficiaries about modification of the total cost recognised in line with the written procedures in the MoP (version 2.0) Chapter Financial Management (4. Flow of funds – 4.5 – Modalities concerning cost recognised). Bearing in mind above mentioned it is evident that in the IA Main entries and on the basis of SAP print-out, source of documents has not been recorded.</p> <p>Additionally, it is evident that NF didn't use into account ineligible expenditure prescribed in the Final Audit Operation Report during issuing Annual Financial Report for 2022 in amount of 27,12€ (25,34€ (EU part of 29,82€) + 1,78€ (7% indirect costs of 25,34€)).</p> <p>Further, ineligible expenditure prescribed in the Final Audit Operation Report in amount of 74,92€ (EU part of 88,15€) NF included in Annual Financial Report for 2022. However, 7% of indirect costs of 74,92€ in amount of 5,24€ which were connected with this ineligible expenditure</p>	Contract	Invoice Number	Ineligible amount	EU part of the Ineligible amount	Indirect costs (7%)	EU part of the Indirect costs	CFCU/MNE/152 BL 4.1.1 Vehicle costs MNE	6357	88,15 €	74,92 €	6,17 €	5,24 €	NŽ-15679/2021	29,82 €	25,34 €	2,09 €	1,78 €	Total		117,97 €	100,26 €	8,26 €	7,02 €	<p>CFCU:</p> <p><u>Not implemented</u></p> <p>Based on the submitted evidence AA auditors concluded that the costs were not rejected even though they were proclaimed as an ineligible by the GoA members during the Audit of Operations 2022.</p> <p>AA auditors recommend to the CFCU, based on the Audit of Operations Report for 2022 and results of follow up to reject all ineligible costs, issue Updated Written Approval Letter and enter relevant documents into the SAP.</p> <p>DMS:</p> <p><u>Partly implemented</u></p> <p>Based on the submitted evidence AA auditors concluded that 7% of indirect costs of 74,92€ in amount of 5,24€ which were connected with this ineligible expenditure were included in the AFR 2023.</p> <p>However, it is evident that NF didn't use into account ineligible expenditure prescribed in the Final Audit Operation Report for 2022 during issuing Annual Financial Report for 2023 in amount of 27,12€ ((25,34€ (EU part of 29,82€) + 1,78€ (7% indirect costs of 25,34€)).</p> <p>Based on the recommendation given to the CFCU, financial correction must be included</p>	<p><i>Level of priority:</i></p> <p>Major</p> <p><i>Body/-ies concerned by the finding:</i></p> <p>Head of CFCU</p> <p>Head of FD</p> <p>Head of NF</p> <p>Head of NAOSO</p> <p><i>Deadline:</i></p> <p>Immediately for CFCU,</p> <p>Next Declaration/ Financial Report for DMS</p>
Contract	Invoice Number	Ineligible amount	EU part of the Ineligible amount	Indirect costs (7%)	EU part of the Indirect costs																					
CFCU/MNE/152 BL 4.1.1 Vehicle costs MNE	6357	88,15 €	74,92 €	6,17 €	5,24 €																					
	NŽ-15679/2021	29,82 €	25,34 €	2,09 €	1,78 €																					
Total		117,97 €	100,26 €	8,26 €	7,02 €																					

<p>were not included in the AFR 2022.</p> <p>Auditors concluded that total amount of EU part expenditures which was not included in the AFR for 2022 is 32,36€ (27,12€ + 5,24€). Cost recognised in the Annual Financial Report for 2022 for CBC Programme “Montenegro-Kosovo” for the year 2016 is not corrected in relation with determined financial correction by Audit Authority.</p> <p>In respect to the finding prescribed in the Final Audit of Operation Report for CBC Programme “Montenegro-Kosovo” for the year 2016 we concluded that Annual Financial Report have not been corrected in amount of 32,36€ for EU part of expenditures (column: Cost recognised and Open pre-financing).</p>	<p>in next declaration/ financial reports.</p> <p>Implementation of the recommendation will be monitored in the following period.</p>	
---	---	--

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

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

The Audit Authority also considered the results from the system audit regarding the design and operating effectiveness of the management and control (MCSS) in the process of preparing and submitting of the Annual Financial Reports and results of follow up of findings issued in the previous audits. Bearing in mind that no expenditures were declared during the year 2023, the Audit Authority has not been in position to perform audit of transactions/operations regarding the financial year 2023.

System audit has not resulted in financial corrections regarding the reference period and has not influenced the correctness of the Annual Financial Reports for 2023.

The audit of operation performed during 2022 has resulted in financial corrections regarding the reference period. Namely, in the Final Audit of Operation Report No: 3011-2-06-129, from 13th February 2023, it is concluded that costs in total amount of 126,23€ (EU part: 107,28€; other sources: 18,95€) for CBC Programme “Montenegro-Kosovo” for the year 2016 are ineligible. Annual Financial Report (column: Cost recognised and Open pre-financing) has been corrected for the amounts of 94,32 € (EU part: 80,17 €; other sources: 14,15 €) of ineligible costs determined during the audit of operation. However, amount of 31,91 € (EU part: 27,12 €; other sources: 4,79 €) was not included in AFR for 2023 i.e. cost recognised and open-pre financing have not been corrected for that amount. Therefore, this financial correction must be included in next declaration/financial reports.

Based on the audit work performed we have obtained reasonable assurance on the completeness, accuracy and veracity of the amounts declared in the accounts submitted to the Commission for the accounting year 2023, except Total Amount Disbursed indicated in finding N°1 in the Part 6.2 of this Report related to the CBC Programme “Montenegro-Kosovo” for the year 2015 and amount of cost recognised and open pre-financing (EU part: 27,12 €; other sources: 4,79 €) related to the CBC Programme “Montenegro-Kosovo” for the year 2016.

Correction which should be made is below materiality level of 2 % (21.279,15€ for Total Amount Disbursed, 10.554,71€ for Cost recognised and 11.507,62€ for Open pre-financing).

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

No problems considered to be systemic in nature were identified.

7. FOLLOW-UP OF PREVIOUS YEARS' AUDIT ACTIVITY

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

During system audit performed in 2023, Audit Authority in cooperation with Kosovo GoA members carried out follow up of implementation of recommendation related to open findings from the previous years. Results of follow up were presented in Final System audit report.

Additionally, in the period January – February 2024 we performed follow up as separate activity before issuing the AAAR and AAO. Results of follow up were presented in Audit Recommendations' Status Reports which were submitted to all IPA Bodies in Montenegro and Kosovo.

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

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

Nº	Findings identified during the System audit 2017	Body	Status in February 2024	New deadline
1.	Deficiency in the MoP Written Procedures	NAOSO	<p><i>Not implemented</i></p> <p>It is evident that NAOSO staff works on improvement of MoP, continuously. MoP (version 2.0) has been updated (Chapters: Irregularities and NF Financial Management). Some improvements are visible on the basis of exceptions of the procedures. However, the difference between the chapter is evident. The changes in certain chapters have not considered compliance with other chapters to which they are reflected (Part I and Part II). Level of priority: <i>Minor</i></p>	6 months
2.	Inadequate backup of data and insufficient number of trainings related to IT	NF NAOSO HOS Office CBC Body IA/CFCU	<p><i>Partly implemented</i></p> <p>Regarding CFCU during OTSC (during 2023) Audit Authority auditors were not convinced of the existence of an audit trail. Namely, it is evident that most of the CFCU documentation (audit trail related to the GB documents, supporting documentation related to the financial and narrative reports) is missing, have not been archived in hard copy and electronically, which decreases the level of documentation protection. Recommendation related to back up remains.</p>	3 months

			<p>When it comes to IT trainings and raising awareness of IT security, Audit Authority auditors consider that IPA structure is aware of importance of education and trainings related to raising information security knowledge and awareness. In this context, IPA structure in close communication with Ministry of Public Administration and Human Resources Management Authority planned and organized during the previous period a number of trainings for IPA staff.</p> <p>Bearing in mind that Action Plan ISO 27002 is outdated and it will be analysed by IT expert and revised version of AP, covering area of relevant IS policies, will be prepared in cooperation with the Ministry of Public Administration during 1st Q 2024, finding remains open.</p> <p>Level of priority: <i>Minor</i></p>	
N°	Findings identified during the System audits 2018-2020	Body	Status in February 2024	New deadline
	No open findings			
N°	Findings identified during the System audit 2021	Body	Status in February 2024	New deadline
1.	Failure to meet prescribed deadlines	CFCU CB	<p><i>Not implemented</i></p> <p>Delays in performing verifications of expenditures by CFCU and CB and payment executions are still evident.</p> <p>Finding remains open. However, bearing in mind that finding relates to contracts from allocations 2014 and 2015 for which the activities have been completed, implementation of the recommendations will be monitored through Finding No. 1 from system audit 2022 (System audit report No. 3011-1-06-582 from 26th December 2022)</p> <p>Level of priority: <i>Major</i></p>	Immediately
2.	Discrepancy between approved amount in the Global Endorsement table and approved amount in the Grant Contracts Award Notice table	CFCU JTS	<p><i>Not implemented</i></p> <p>Based on the submitted evidence – Publicity and Visibility E-mail communications, it is evident that Grant Contracts Award Notice is corrected and published on the CFCU website.</p> <p>Audit Authority auditors concluded that approved grant amount in the Grant</p>	Immediately for JTS; Immediately for CFCU after the website becomes active

			<p>Contract Award Notice is 282.866,30 € for Contract CFCU/MNE/148 in accordance with the Global Endorsement List. However, based on the approved/signed Addendum N°:3 (on 31st August 2021), grant amount was corrected in accordance with the revised Budget for the Action (280.362,51€), but Grant Contract award Notice was not corrected according the Addendum signed.</p> <p>Level of priority: <i>Minor</i></p>	
3.	Discrepancy between data in the Financial Report Registers and CPOS-FROS-s	CFCU	<p>Implemented</p> <p>Based on the submitted documents Financial Report Register, CPOS-FROS and Written Approval Letter it is evident that data in the above-mentioned annexes has been updated in accordance with the auditors recommendations.</p> <p>The finding is closed.</p>	
4.	Technical errors observed in process of control and supervision of grant beneficiaries financial reports and payment requests	CFCU	<p>Not implemented</p> <p>It was determined that FC1 and FC2 started filling out Checklists manually in hard copy.</p> <p>However, Head of CFCU still doesn't approve and sign Checklists for Requests for Funds. Checklist and MoP have not been updated yet in accordance with the Audit Authority auditors' recommendations.</p> <p>Level of priority: <i>Intermediate</i></p>	3 months
N°	Findings identified during the System audit 2022	Body	Status in February 2024	New deadline
1.	Failure to meet prescribed deadlines	CFCU CB	<p>Not implemented</p> <p>Delays in performing verifications of expenditures by CFCU and CB and payment executions are still evident.</p> <p>Level of priority: <i>Major</i></p>	Immediately

Out of 7 findings which remained open after the previous Annual Audit Activity Report, one of them is closed during the follow up.

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

N ^o	Findings identified during the System audit 2017	Body	Status in February 2024	New deadline
1.	Lack of Inter-institutional agreements	NIPAC HOS CBC Body Control Body	Implemented The Operational Agreement between the NIPAC and HOS has been signed on 24 th July 2023. The Operational Agreement between HOS, Head of CBC Body and Head of Control Body has been signed on 3 rd August 2023.	
2.	Internal audit unit in the Ministry of Local Government Administration (MLGA)	HOS CBC Body	Not implemented There is no IAU created for IPA funds. There is not enough staff and trainings for audit of EU funds have not been provided for IAU staff. Level of priority: <i>Intermediate</i>	6 months

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

Status of audit of operation findings:

N ^o	Findings identified during the Audit of operation 2022	Body	Status in February 2024	New deadline
1.	Un-respected procedures related to the retention of documents	CFCU	Not implemented CFCU has not yet obtained the missing documentation/evidence from Grant beneficiary. Level of priority: <i>Intermediate</i>	3 months
2.	Deficiencies in implementation of On-the-spot verification by CFCU	CFCU	Not implemented Audit Authority auditors did not receive adequate evidence that CFCU checked existence of the procured equipment and supplies and its availability and usage at the envisaged project locations during the OTSC. Level of priority: <i>Intermediate</i>	During on-the-spot verification period
3.	Book keeping of purchased equipment and supplies	Grant beneficiary - Municipality of Gusinje	Implemented Based on the submitted OTSV report and Checklist, it is evident that CFCU conducted on-the-spot check on 8 th May 2023 and collected documentation	

			proving that mentioned equipment has been entered in the fixed assets book and that inventory numbers were assigned.	
4.	Ineligible expenditure related to the Local office costs (Vehicle costs MNE)	CFCU	<i>Not implemented</i> The costs in amount of 126,23€ (EU part: 107,28€; other sources: 18,95€) for CBC Programme “Montenegro-Kosovo” for the year 2016 were not rejected by CFCU. Level of priority: <i>Major</i>	Immediately

Out of 4 findings which remained open after the previous Annual Audit Activity Report, one of them is closed during the follow up.

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

Not applicable.

8. OTHER INFORMATION

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

Not applicable.

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

Not applicable.

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

Not applicable.

9. OVERALL LEVEL OF ASSURANCE

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

The overall level of assurance could not be obtained bearing in mind that Audit Authority did not perform audit of operations in the reference period since no expenditure were declared to the European

Commission in the financial year 2023. The assurance on the proper functioning of the management and control system is based only on the result of the system audit (system assessment – please see section 4 above), and taking into account the results of the follow-up of the findings given in the previous years where the management, control and supervision systems is assessed as *works, but some improvement(s) are needed*.

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

The assurance on the Annual Financial Reports or Statements/Annual Account is based on the results of the audit as described in section 6.3 of this AAAR. Therefore, as based on the performed audit of Annual Financial Reports or Statements/Annual Account we have obtained reasonable assurance on the completeness, accuracy and veracity of the amounts declared in the accounts submitted to the Commission for the accounting year 2023, it is appropriate to issue an unqualified opinion on the reliability of Annual Financial Reports or Statements/Annual Account.

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

Not applicable.

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

No new findings were identified during system audit.

Bearing in mind that no expenditures were declared during the year 2023, the Audit Authority has not been in position to perform audit of transactions/operations regarding the financial year 2023.

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

Fund	Reference (CCI)	Programme	A	B		C	D	E		F	G	H=F-G	GI	JH
			Expenditure declared to the Commission in reference to the year	Expenditure in reference to the financial year audited for the random sample		Total number of units in the population	Number of sampling units for the random sample	Amount and percentage (error rate) of irregular expenditure in random sample		Total projected error rate	Corrections implemented as a result of the total error rate	Residual total error rate	Other expenditure audited	Amount of irregular expenditure in other expenditure sample
				Amount	%			Amount	%	%				
IPA	C(2014) 9307 2014/037-592	CBC Programme Montenegro- Kosovo 2014	/	/	/	/	/	/	/	/	/	/	/	/
IPA	C(2014) 9307 2015/038-161 2016/038-182 2017/038-183	CBC Programme Montenegro- Kosovo 2015-2017	/	/	/	/	/	/	/	/	/	/	/	/
IPA	C(2014) 9307 2018/041-472 2019/041-474 2020/041-475	CBC Programme Montenegro- Kosovo 2018-2020	/	/	/	/	/	/	/	/	/	/	/	/