



**MONTENEGRO
AUDIT AUTHORITY**

Nº: 3011-4-06-186

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ANNUAL AUDIT ACTIVITY REPORT

OF THE AUDIT AUTHORITY FOR

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

FOR THE PERIOD

1st JANUARY 2023 – 31st DECEMBER 2023

Podgorica, March 2024

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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
CAAT	Computer Assisted Auditing Techniques
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
ETCP	European Territorial Cooperation Programmes
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
MCSS	Management, Control and Supervision System
MEFA	Ministry of Europe and Foreign Affairs
MFE	Ministry of Finance and Economy
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
SASPAC	State Agency of Strategic Programming and Assistance Coordination
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-Albania" (C (2014) 9352). It has been assisted by the Group of Auditors (GoA) composed of representatives by the Audit Authority of Montenegro and Audit Agency for the EU - Accredited Assistance Programmes of Albania.

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

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

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

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

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

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

- **National Fund:** Control Activities;
- **NAO Support Office:** Risk Management, Monitoring of ICF;
- **CA/CFCU:** Risk Management, Control Activities;
- **HOS Office:** Risk Management, Control Activities, Monitoring of ICF;
- **HOS/CBC Body ALB:** Control Activities, Monitoring of ICF;
- **Control Body:** Risk Management, Control Activities.

During February 2024 the Audit Authority performed follow-up of the findings and recommendations given in the Final reports of performed audits in period 2017-2023. Follow-up was performed as separate activity before issuing the AAAR and the AAO.

In the period July 2023 - October 2023 Audit Authority performed audits of operation on the sample of operations for which the expenditures were declared to the European Commission (EC) in Final Declarations for 2014 and 2015 financial allocation.

During the reference year (2023), Final Declaration of Expenditure was sent to the European Commission (EC) on 28th June 2023 regarding 2014 allocation. The reference period from which the sample for audit of operations was drawn includes period from 1st January 2023 to 28th June 2023 when Final Declaration was sent to EC by NAO.

Population for the audit of operation includes expenditures declared in the final declaration in amount of 1.206.394,50€ reduced by expenditures declared in previous declaration from 30th July 2019 in amount of 85.414,93 €. The population consists of four (4) operations including 1.120.979,57€ of total cost recognised out of which 950.345,32€ is EU part and 170.634,25€ is private co-financing (other sources).

Non-statistical sampling was applied for the selection of sample of operations as applicable for small populations. Operation was set as sampling unit.

Two (2) operations in overall amount of 567.141,89€ have been selected in the sample using equal probability selection which presents 50% of the total number of units/operations (population) and 50,59% of total amount of declared costs.

Sampled operations are as follow:

- CFCU/MNE/052 - Local cuisine as tourism offer of cross-border region and
- CFCU/MNE/054 - Child Friendly Tourism in the Cross-Border Region.

Regarding 2015 financial allocation Final Declaration of Expenditure was sent to the European Commission (EC) on 28th July 2023. The reference period from which the sample for audit of operations was drawn includes period from 1st January 2023 to 28th July 2023 when Final Declaration was sent to EC by NAO.

Population for the audit of operation for allocation 2015 includes expenditures declared in the final declaration in amount of 1.779.893,14€ reduced by expenditures declared in previous declaration from 29th September 2020 in amount of 962.668,27€.

The population consists of four (4) operations including 817.224,87€ of total cost recognised out of which 694.531,70€ is EU part and 122.693,17€ is private co-financing (other sources).

Two (2) operations in overall amount of 436.480,98€ have been selected in the sample using equal probability selection which presents 50% of the total number of units/operations (population) and 53,41% of total amount of declared costs.

Sampled operations are as follow:

- CFCU/MNE/049 - Green Lands and
- CFCU/MNE/050 - Disasters do not know borders.

Results of audits of operation for allocations 2014 and 2015 are presented in Final Audit Activity Report no. 3011-4-06-453 submitted to EC on 28th September 2023 and Final Audit Activity Report no. 3011-4-06-489 submitted to EC on 26th October 2023.

As for financial allocations for 2016, 2017, 2018, 2019 and 2020 no expenditures were declared during the year 2023.

At the end of February and beginning of March 2023, 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		Next 12 months
CBC MNE-ALB 2014	2014/037-593	1.022.838,41	0,00	1.022.838,42	183.452,45	0,00	0,00	88,08	0,00
CBC MNE-ALB 2015	2015/038-158	1.511.659,44	0,00	1.511.659,44	267.032,83	0,00	0,00	73.779,16	0,00
CBC MNE-ALB 2016	2016/038-174	1.183.983,52	0,00	524.364,42	92.690,18	659.619,10	0,00	421.379,38	311.922,42
CBC MNE-ALB 2017	2017/038-175	943.306,92	0,00	510.315,60	90.055,68	432.991,32	0,00	107.950,52	77.541,66
CBC MNE-ALB 2018	2018/041-468	756.921,89	0,00	0,00	0,00	756.921,89	0,00	603.078,11	798.217,59
CBC MNE-ALB 2019	2019/041-470	293.229,60	0,00	0,00	0,00	293.229,60	0,00	1.066.770,40	85.445,40
CBC MNE-ALB 2020	2020/041-471	0,00	0,00	0,00	0,00	0,00	0,00	1.224.000,00	1.224.000,00

During the audit AA verified whether the Annual Financial Reports/Financial Statements give a true and fair view as well as the completeness, accuracy and veracity of the annual financial reports or statements and the underlying annual accounts. The audit of accounts in respect of accounting year 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-Albania" for the year 2014 (2014/037-593), the Cross-Border Cooperation Action Programme "Montenegro-Albania" for the years 2015-2017 (2015/038-158, 2016/038-174 and 2017/038-175) and Cross-Border Cooperation Action Programme "Montenegro-Albania" for the years 2018-2020 (2018/041-

468, 2019/041-470 and 2020/041-471) which provide assistance for cross-border cooperation in the thematic area spelled out in the IPA II 2014-2020 CBC Programme "Montenegro – Albania" (C(2014) 9352).

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

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

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

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

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

With a view to drawing up an audit opinion, Audit Authority assessed results of audit activities from the audits of management, control and supervision system and audit of operation performed during 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°: 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 Albania since last Annual Audit Activity Report

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

– **National IPA Coordinator**

Ms Jona Suli has been appointed as the General Director of State Agency for Strategic Planning and Aid Coordination (SASPAC) and National IPA Coordinator of the Republic of Albania with Prime Minister order no. 220 dated 14th December 2023.

Audit Authority was informed about this change by official letter no. 23039 dated 20th December 2023 and by e-mail sent by Montenegrin OS on 12th January 2024.

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

Mr Altin Zeqo has been appointed as the Director of the Directorate of Convergence and Cohesion with EU within SASPAC and Head of Operating Structure on the 8th November 2023.

On the same date Ms Kornelia Ferizaj has been appointed as the Head of Unit/Sector for Territorial Cooperation in the Directorate of Convergence and Cohesion with EU and Head of CBC Body.

Audit Authority was informed about these personal changes by e-mail sent by Montenegrin OS on 20th November 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 – Albania" was prepared and submitted to the European Commission with a copy to the NAO on 30th 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.

Bearing in mind that during 2023 NAO submitted Final Declarations to EC for the CBC Programmes Montenegro-Albania for 2014 and 2015 allocations, AA updated Audit Strategy in order to include audit activities necessary for preparing Final Audit Activity Report and Final Audit Opinion. New risk assessment was performed for the purpose of system audit and the scope of the audit has been expanded.

There have been no changes to the sampling method used for the audit of operations.

Update of Audit Strategy 2023-2025 was approved by General Auditor after having obtained the opinion of GoA members and submitted to EC on 20th April 2023.

4. SYSTEMS AUDITS

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

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

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

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

Audit period	1. Programme (CCI and title)	2. Audit Body	3. Audited Body(ies)	4. Date of the audit	5. Scope of the audit	6. Principal findings and conclusions	7. Problems of systemic character and measures taken	8. Estimated financial impact (if applicable)	9. State of follow-up (closed /or not)
01.06.2022 - 31.07.2023	IPA II 2014-2020 Cross-Border Cooperation Programme Montenegro-Albania (C (2014) 9352) <i>CRIS N°:</i> 2014/037-593 2015/038-158 2016/038-174 2017/038-175 2018/041-468 2019/041-470 2020/041-471	Audit Authority of Montenegro + Goa members	1.DMS (NFD/NAO SO) 2.CFCU 3.HOS Office 4.HOS/CBC Body ALB 5.CB + Follow up in all bodies within MCSS of the IPA II 2014-2020 CBC Programme Montenegro-Albania	28.04.2023 - 31.07.2023.	-2(a) Objective settings – DMS, CFCU, HOS Office, CB; -2(b) Risk identification, assessment and response - DMS, CFCU, HOS Office, CB; -3(a) Selection and development of control activities - DMS, CFCU, HOS Office, HOS/CBC Body ALB, CB; -5(a) On-going and specific monitoring – DMS, HOS Office, HOS/CBC Body ALB; -5(b) Assessment, recording and communication of internal control deficiencies - DMS, HOS Office, HOS/CBC Body ALB - Follow up of open findings from previous audits - all bodies within MCSS	<u>Findings related to Montenegro</u> 1. Mistake related to the calculation of the Relevance of the action – CA/CFCU; 2. Deficiencies related to procedures for monitoring of sustainability – NAO, HOS, NAO SO, HOS Office; 3. No evidence related to risk analysis for transaction level verification – HOS Office; <u>Findings related to Albania</u> 1. Delays in expenditure verification process for the contracts CFCU/MNE/162 and CFCU/MNE/157 – CB, CFCU; 2. Procedure for the approved exceptions not included in the PLCP - NAO, HOS MNE, HOS ALB 3. Lack of Internal regulation and Job descriptions of Albanian CBC Body and HOS at State Agency of Strategic Programming and Aid Coordination (SASPAC) - HOS/CBC Body ALB; 4. Exception request form not registered in the Register of Exceptions by Albanian CBC and CB Body - CBC Body ALB, CB <u>Audit conclusion:</u>	-	-	<u>Findings related to Montenegro</u> Findings no. 1 and 3 - OPEN Finding no.2 – CLOSED <u>Findings related to Albania</u> Findings no. 1 and 2 – OPEN Findings no.3 and 4 - CLOSED

						Category 2 – Works, but some improvements are needed. For more details please refer to the point 4.4 of this report.			
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Based on level of implementation of IPA II 2014-2020 CBC Programme "Montenegro-Albania" and all collected information and documentation, as well as in accordance with adopted Audit Strategy for period 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:

1. National Authorizing Officer (NAO) and Management Structure (MS) composed of National Fund (NF) and Support Office for the NAO (NAOSO):
 - 2(a) Objective settings
 - 2(b) Risk identification, assessment and response
 - 3(a) Selection and development of control activities
 - 5(a) On-going and specific monitoring
 - 5(b) Assessment, recording and communication of internal control deficiencies
2. Contracting Authority (CA):
 - 2(a) Objective settings
 - 2(b) Risk identification, assessment and response
 - 3(a) Selection and development of control activities
3. HOS Office:
 - 2(a) Objective settings
 - 2(b) Risk identification, assessment and response
 - 3(a) Selection and development of control activities
 - 5(a) On-going and specific monitoring
 - 5(b) Assessment, recording and communication of internal control deficiencies
4. HOS/CBC Body ALB:
 - 3(a) Selection and development of control activities
 - 5(a) On-going and specific monitoring
 - 5(b) Assessment, recording and communication of internal control deficiencies
5. Control Body (CB):
 - 2(a) Objective settings
 - 2(b) Risk identification, assessment and response
 - 3(a) Selection and development of control activities

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

The system audit encompassed the period from 1st June 2022 to 31st July 2023. The audit was performed in the period from 28th April 2023 until 31th July 2023.

The Final Audit Report was issued and submitted to National Authorising Officer, National IPA Coordinator of Montenegro, National IPA Coordinator of Albania, Head of Operating Structure in Montenegro and Head of Operating Structure in Albania on 19th September 2023.

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

For the purpose of detailed defining of the scope of the audit, during the preparation of Audit Strategy for period 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 requirements during system audit engagement planning.

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

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

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

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

- National Authorizing Officer (NAO) and Management Structure (MS) composed of National Fund (NF) and Support Office for the NAO (NAOSO)
- Contracting Authority (CA)
- HOS Office
- HOS/CBC Body ALB and
- Control Body (AL CB).

The ICF areas which were under the scope of audit according to risk assessment were ICF area 2. Risk management, 3. Control activities and 5. Monitoring of ICF.

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

- 2(a) Objective settings - DMS, CFCU, HOS Office, CB
- 2(b) Risk identification, assessment and response - DMS, CFCU, HOS Office, CB
- 3(a) Selection and development of control activities – DMS, CFCU, HOS Office, HOS/CBC Body ALB, CB
- 5(a) On-going and specific monitoring - DMS, HOS Office, HOS/CBC Body ALB
- 5(b) Assessment, recording and communication of internal control deficiencies - DMS, HOS Office, HOS/CBC Body ALB

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

The outcome of the audit process is summarized in the Final system audit report that provides findings and recommendations which were identified during the audit process in each body of Management Structure and Operating Structures. Findings were categorized according to level of importance to major, intermediate and minor findings. During this audit engagement we identified in total 3 findings related to Montenegrin bodies: 1 major and 2 intermediate. 4 findings were identified related to Albanian bodies: 3 major and 1 intermediate.

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	DMS (NF/NAOSO)	CA/CFCU	HOS OFFICE MNE	HOS/CBC BODY ALB	CB	TOTAL
2(a)	1	1	1	2	1	2
2(b)	1	1	1	-	1	1
3(a)	1	2	2	2	2	2
5(a)	2	-	2	1	-	2
5(b)	1	-	1	-	-	1
TOTAL	2	2	2	2	2	2

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

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

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

Further below there is a description of the most important findings (major and intermediate) and recommendations provided for correcting the findings detected, as well as status after follow up.

4.4.1 Principal Findings and recommendations related to MCSS

A) Principal Findings and recommendations related to MCSS in Montenegro

➤ Finding N° 1: Mistake related to the calculation of the Relevance of the action

ICF requirement:

3. Control activities

(a) Selection and development of control activities

Level of priority: Major

Body/-ies concerned by the finding: CFCU

According to PRAG (version 2020.0) **Point 6.5.8.3 Evaluation of the Concept Note** „The overall assessment is based on the scores obtained under each subheading, added up by heading. If the evaluation committee does not evaluate the concept notes itself, the final score is the arithmetical average of the scores given by the assessors. The completed evaluation grids for each concept note must be sent to the evaluation committee, if assessors are used. ...“ The secretary then draws up a list of all the concept notes, ranked by score. As a first step, only the concept notes that receive a score of at least 30 points in the evaluation are considered for preselection. Concept notes that reach the above threshold will then be ranked by score.“ and **Point 6.5.8.4. Evaluation of the full applications** „The quality of the full applications is assessed using the evaluation grid (see Annex E5b) containing the selection and award criteria. Comments are made for each subheading on the basis of the questions and criteria used for that heading. In addition, there must always be a check of consistency between budget items and the description of the action. The overall assessment is based on the scores obtained under each subheading, added up by heading. If the evaluation committee does not evaluate the applications itself, the final score is the arithmetical average of the scores

given by the assessors. For indirect management, the completed assessments for each proposal must be sent to the evaluation committee (for direct management they are available in PROSPECT).

According to points 3. Evaluation and 4. Scoring of Annex Guidelines for Assessors „Applications which had obtained less than 70 points as score in the ranking list will not recommended for funding by the Evaluation Committee.

Reviewing the Contract procedures for Grants related to the assessment of the Concept notes and Full applications, the Audit Authority auditors concluded that procedures had been conducted in accordance with the PRAG rules and Guidelines for Applicants.

Concept Notes Evaluation Grids have been filled in and signed by independent assessors. Concept Note table for grids comparisons has been prepared.

Assessment Grids for Full Applications and Full Application Evaluation Grids have been filled in and signed by independent assessors. Composite table for Full Applications has been filled-in (with calculation of Average relevance for second stage) by CFCU Contract manager.

Based on the signed Concept Note Evaluation Grids it is concluded that for:

1. Applicant N°:17/ “Business Women Association of Montenegro” it is evident that in the Concept Note table for grids comparison as well as in the Assessors assessments of Concept Note Evaluation Grids have been made mistake of Relevance score calculation. Namely, Relevance score in the Concept Note table for grids comparison calculation is 14,00. Additionally, Relevance of the action in the Assessors assessments of Concept Note Evaluation Grids is (Total score by Assessor 1 is 15,00 and Total Score by Assessor 2 is 13,00). However, based on the signed Concept Note Evaluation Grid, it is evident that Sub-score of Relevance of the action by Assessor 1 is 17. Relevance score/relevance of the action should be 15,00 (difference is 1 point).

Additionally, based on the Evaluation Report - Step 1, point 4. Conclusion for Specific objective 3 it is evident that Average score is 38,00. Bearing in mind that Relevance score by Assessor 1 has been calculated incorrectly (see above mentioned remarks), Average score should be 39,00 (Audit Authority auditors calculation).

2. Applicant N°:45/ “CBS Creative Business Solutions” it is evident that in the Concept Note table for grids comparison as well as in the Assessors assessments of Concept Note Evaluation Grids have been made mistake of Relevance score calculation. Namely, Relevance score in the Concept Note table for grids comparison calculation is 14,00. Additionally, Relevance of the action in the Assessors assessments of Concept Note Evaluation Grids is (Total score by Assessor 1 is 15,00 and Total Score by Assessor 2 is 13,00). However, based on the signed Concept Note Evaluation Grid, it is evident that Sub-score of Relevance of the action by Assessor 1 is 17. Relevance score/relevance of the action should be 15,00 (difference is 1 point).

Additionally, based on the Evaluation Report - Step 1, point 4. Conclusion for Specific objective 3 it is evident that Average score is 34,00. Bearing in mind that Relevance score by Assessor 1 has been calculated incorrectly (see above mentioned remarks), Average score should be 35,00 (Audit Authority auditors calculation).

Remark: Based on the submitted Evaluation Report (Step 2) it is evident that Application N°:45 didn't submit full application.

3. Applicant N°:58/ “Albanian Institute of Public Affairs – AIPA” it is evident that in the Concept Note table for grids comparison as well as in the Assessors assessments of Concept Note Evaluation Grids have been made mistake of Relevance score calculation. Namely, Relevance score in the Concept Note table for grids comparison calculation is 10,50. Additionally, Relevance of the action in the Assessors assessments of Concept Note Evaluation Grids is (Total score by

Assessor 1 is 11,00 and Total Score by Assessor 2 is 10,00). However, based on the signed Concept Note Evaluation Grid, it is evident that Sub-score of Relevance of the action by Assessor 1 is 12. Relevance score/relevance of the action should be 11,00 (difference is 0,5 point).

Additionally, based on the Evaluation Report - Step 1, point 4. Conclusion for Specific objective 3 it is evident that Average score is 24,00. Bearing in mind that Relevance score by Assessor 1 has been calculated incorrectly (see above mentioned remarks), Average score should be 24,50 (Authority auditor calculation).

Remark: Based on the submitted Evaluation Report (Step 1) it is evident that Application N°:58 didn't have minimum threshold of 30 point.

Based on the signed Assessment Grids for Full Applications and Full Application Evaluation Grids it is concluded that for:

1. Applicant N°:17/ "Business Women Association of Montenegro" (Total score by Assessor 1 is 75,00 and Total score by Assessor 2 is 65,00). Based on the Composite table for Full Applications it is evident that Total average score is 70,00 (with calculation of Average relevance for second stage of 14,00).

Bearing in mind that Relevance of the action/Average Relevance for second stage is 15,00 (Audit Authority auditor calculation) total score by Assessor 1 should be 76,00 and Total score by Assessor 2 should be 66,00 and based on that Total average score of Applicant N°:17 should be 71,00 (with Average relevance for second stage of 15,00).

Although calculation error has been made, it has not been reflected to the Evaluation Report - Step 2 i.e. to the ranking of the Applicant N°:17 bearing in mind the fact that out of six (6) applications three (3) applications have more points than Applicant N°:17 (Applicant N°:2 (77,50 points), Applicant N°:13 (76,50 points) and Applicant N°:16 (78,50 points).

Based on the Evaluation Report - Step 2, point 4. Conclusions for Specific objective 3 it is evident that two applications have been selected (Application N°:16 and Application N°:2). Four (4) applications (Applicant N°:13, Applicant N°:17, Applicant N°:53 and Applicant N°:61) have been rejected.

Remarks:

It is evident that Application No:13 was scored with point 1 (under sub-section 1.2)

It is evident that Application No:17 was scored with point 1 (under sub-section 1.4)

It is evident that Application No:53 was obtained less than 70,00 points (63,00)

It is evident that Application No:61 was obtained less than 70,00 points (63,50)

Abovementioned error has not been detected by Contract Division or by Quality Control Division in the CFCU.

Recommendation:

We recommend to the CFCU:

1. to pay more attention during the process of the evaluation of the applicants, as this may affect the final result of the evaluation
1. to respect "4 eyes principle"

Results of follow up: Not implemented

➤ **Finding N° 2: Deficiencies related to procedures for monitoring of sustainability**

ICF requirement:

3. Control activities

(a) Selection and development of control activities

5. Monitoring of ICF

(a) On-going and specific monitoring

Level of priority: *Intermediate*

Body/-ies concerned by the finding: *NAO, HOS, NAO SO, HOS Office*

On the basis of the DG NEAR auditors' recommendations ME02 and ME15 given-within audit reports SYS/2018/03/ME, SYS/2019/03/ME and SYS-DR/2020/03/ME, NAO approved Exception Request Form on 2 December 2022 prescribing in more details procedures related to monitoring of sustainability of project/grant contract. According to approved ERF "*After the implementation of grant contract is finished, the responsible authorities should focus on the verification of the achievement of project results and monitoring of their sustainability... After the end of contract implementation, the HOS Office/CBC Body/JTS shall periodically monitor the activities completed, in order to ensure that the objectives are achieved, the activities outcomes are in place and in use in line with the project purpose...*" Sustainability checks by HOS should be performed on the sample of grant contracts selected to be subject of monitoring visit.

Analysing the procedures prescribed in ERF we determined that new *Annex 4 Checklist sustainability of projects* does not contain questions related to verification of the achievement of project results and objectives. Also, in the procedures sample size of project which will be subject of control and on which way sample will be selected has not been defined

Additionally, during the audit in HOS Office we determined that in *Annex 5-Sustainability monitoring visit report* HOS Office did not report in details about achievement of project results and objectives on the basis of pre-defined, transparent measurable indicators. Deficiencies in reporting have been noticed in 2 out of 3 reports.

All the above mentioned may have an impact on the quality of performed sustainability monitoring checks and getting assurance that project results and objectives are archived and their sustainability ensured.

Recommendation:

We recommend:

- To NAO and HOS to develop more detailed procedures and checklist for monitoring of sustainability which will contain methodology and questions related to verification of the achievement of project results and objectives,
- To NAO and HOS to develop more detailed procedures for monitoring of sustainability which will defined sample size of projects which will be subject of control and on which way sample will be selected.
- To HOS Office to report in more details about achievement of project results and objectives on the basis of pre-defined, measurable indicators during the monitoring of project sustainability.

Results of follow up: Implemented

HOS Office initiated exception request related to the Annex 4. NAO approved exception request form.

Namely, based on the Audit Authorities auditor recommendation, HOS Office improved the existing checklist (Annex 4 – Checklist sustainability of project) adding question related to the result and objectives achieved and detailed procedures for sampling projects for monitoring of sustainability of grant contracts. The finding is closed.

➤ **Finding N° 3: No evidence related to risk analysis for transaction level verification.**

ICF requirement:

3. Control activities

(a) Selection and development of control activities

5. Monitoring of ICF

(a) On-going and specific monitoring

Level of priority: Intermediate

Body/-ies concerned by the finding: HOS Office

According to the Manual of Procedures (version 2.0) Chapter Management Verification; point 4. Preparation of the annual on-the-spot checks plan „*Risk analysis prepared by NAO/DMS is background for preparation of Annual on the spot checks Plan for system level verification.*

For preparing Annual On-the-spot checks Plan for transaction level verification, risk assessment analysis shall be used. The Annual on-the-spot checks Plan is approved by the HOS.

According to Point 9. Audit trail for on-the-spot checks by HOS *“Based on the risk analysis carried out and professional experience and judgement, the TM shall describe the selection of the contract for which they shall execute OTS transaction level verification. ”*

Methodology for risk assessment analysis for transaction level verification is given in Annex 2 – OTSC Risk Analysis in Mop Chapter Management Verification.

During the audit we determined that HOS Office during preparation of Annual OTSC Plan and selection of contracts which will be subjects of OTS transaction level verification did not perform risk assessment and did not document the manner on which contracts were selected to be subject of control. There is no adequate audit trail of performed risk analysis.

Recommendation:

We recommend to the HOS Office to perform risk assessment during the preparation of Annual On-the-spot checks Plan for transaction level verification in accordance with Annex 2 of MoP Chapter Management Verification and to provide an adequate audit trail of the conducted risk analysis.

Results of follow up: Partly implemented

HOS Office described risk assessment informally. Risk assessment has not been performed according to Annex 2 of MoP Chapter Management Verification and has not been signed by officers who performed, reviewed and approved risk assessment.

B) Principal Findings and recommendations related to MCSS in Albania

➤ Finding N° 1: Delays in expenditure verification process for the contracts CFCU/MNE/162 and CFCU/MNE/157

ICF requirement:

3. Control activities

(a) Selection and development of control activities

Level of priority: Major

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

During the audit mission it was noticed that for the contracts 162 and 157 the financial reports were sent by the Contracting Authority to the Albanian Control Body not in compliance to the form required by the written procedure (PLCP) by causing delay in expenditure verification by CB.

The PLCP in Article 8 requires that coordinators from Montenegro and Albania shall submit original financial reports to Contracting Authority and a copy to the Control Body.

At the Article 9.3 of PLCP it is stated that ... Financial part of the Reports for the Albanian beneficiaries will be subject to checks/approval performed by Control Body....

... Administrative control will be performed in accordance with relevant checklist Annex 8.1, which requires the financial reports to be signed and stamped as applicable and available in the requested format in hard copy and electronic form.

With reference to ERF approved by NAO on 23/09/2022, “Coordinators from Montenegro and Albania shall submit the above-mentioned documents (financial reports), originals to Contracting authority and a copy to the Control Body. The Contracting Authority shall insure to forward officially to Control Body only the signed and stamped financial reports”

The auditors noticed delays in issuing the confirmation of eligibility of expenditures for the contracts 162 and 157 as detailed below:

Referring to the Contract 162 “Accessibility, Civic conscience, employment for persons with disabilities as a new trend (ACCENT)”,

- On 17/05/2022, CA requires to CB the proceed with the expenditure verification process, with unsigned financial report 1 for the period 01/02/2021 – 31/01/2022.
- On 02/06/2022, CB request signed and stamped financial reports from CA.
- Since no signed financial report have been received by CA, CB issued a Confirmation of eligibility of expenditures with no cost excepted by official letter prot.518 on 12/05/2023.
- On 24/05/2023, Control Body received the signed and sealed financial report by CA/Coordinator.
- On 26/05/2023, CB issues the revised certificate of eligibility of expenditures with official letter prot. 552.

Referring to the Contract 157 “ACCENT Accessibility, Civic conscience, employment for persons with disabilities as a new trend”:

- On 20/05/2022 the CA sent to CB the unsigned Financial Report 2 for the period 07/06/2021 – 07/12/2021.

- The signed and sealed Financial Report was sent to CB by the beneficiary and not by CA on 04/02/2023 (Cc to CA, JTS and Coordinator).
- On 20/02/2023, CB issued the Confirmation of eligibility of expenditures with official letter prot.199.

The whole process of Confirmation of eligibility of expenditures has been prolonged for more than a year from the request of CA to CB.

Based on above mentioned legal provisions, the Control Body cannot submit the Confirmation of eligibility of expenditures with relevant annexes to the Contracting Authority (CA) without receiving officially the signed and stamped financial reports and other relevant documents from CA/Coordinator.

The lack of coordination between CA and CB for main administrative procedures (signed and sealed financial report,) has led to delays in verification process and non-compliance with the terms of the contract.

Recommendation:

- The Contracting Authority shall insure to forward officially to Control Body only the signed and stamped financial reports as according to the ERF approved by NAO on 23/09/2022.
- CA should provide proper coordination of the whole process of expenditure verification and provide adequate guidance to the Coordinator and CB in accordance with the PLCP.

Results of follow up: Not implemented

➤ **Finding N° 2: Procedure for the approved exceptions not included in the PLCP**

ICF requirement:

3. Control activities

(a) Selection and development of control activities

Level of priority: Major

Body/-ies concerned by the finding: HOS/CBC Body ALB, CB

The audit mission has identified that Exception Request Forms initiated and approved during 2022 – 2023 under the IPA II 2014-2020 CBC Programme Montenegro-Albania, are not detailed and approved in Programme Level Control Procedures (PLCP). The controls carried out from CBC Body and Control Body are carried out without a detailed and approved procedures in PLCP.

During 2022-2023 there have been approved three Exception Request Forms (ERFs):

- The first ERF has been prepared by Head of CFCU Office in Montenegro on 16/03/2022 and approved by NAO on 06/04/2022,
- The second ERF has been prepared by Albanian Control Body on 17/06/2022 and approved by NAO on 23/09/2022,
- The third ERF has been prepared by HOS Office in Montenegro on 17/5/2023 and approved by NAO 29/5/2023.

Referring to the Programme Level Control Procedures, Section 2 Internal Control Framework, Point 2.2 Exceptions, approval and registration, it is stated:

The exceptions could be due to:

1. *Procedure failure/incomplete procedure - in this the procedure for modification of the Procedures should apply*
2. *Ad-hoc - due to force major circumstances*

In urgent and duly justified cases, when there is no enough time for the Procedures modification and the activity/process needs to be approved without any delay, the procedure for requesting and recording exceptions described below should be followed and then the relevant part of the Procedures shall be modified.

All the three above mentioned ERFs require parallel changes in the PLCP. However, none of the required changes have been described in a new approved version of PLCP.

This situation has caused:

- unclear situation and confusion between operating structures CA and CB which apply these procedures: the existing PLCP or the ERFs (approved on 06/04/2022 and 23/09/2022) for expenditure verification process.

- lack of methodology regarding the monitoring of sustainability of projects/grant contracts in terms of: analysis of the finalised CBC grant contracts, number of projects to be selected in order to provide sufficient assurance for the sustainability of the closed programmes, sampling methodology referring ERF (approved on 29/5/2023).

PLCP not revised in line with approved ERF-s (Exception Request Forms) may lead to ineffective process of implementation of exceptions regarding the verification of the expenditure and the monitoring of sustainability of projects.

Recommendation:

It is recommended that changes introduced by approved ERF should be properly reflected in PLCP in order to provide the detailed written procedure for ERF Implementation.

Results of follow up: Partly implemented

PLCP have been revised but not yet approved.

Level of priority: Intermediate

- **Finding N° 3: Lack of Internal regulation and Job descriptions of Albanian CBC Body and HOS at State Agency of Strategic Programming and Aid Coordination (SASPAC)**

ICF requirement:

1. Control environment

(d) Staff planning, recruitment, retention, training and appraisal

2. Risk Management

(a) Objective setting

Level of priority: Major

Body/-ies concerned by the finding: HOS/CBC Body ALB

During the system audit at Albanian CBC and HOS at State Agency of Strategic Programming and Aid Coordination (SASPAC), for the programme IPA II 2014-2020 CBC Programme Montenegro-Albania, it was noticed that the internal regulation and job descriptions are not approved yet.

The purpose of the Internal regulation is to determine the detailed rules of the organization and internal functioning of SASPAC, as well as to determine the detailed work procedures and personnel rules.

Meanwhile, job descriptions set out the roles and responsibilities of a particular position. As such they are a fundamental requirement of the management and control system, as well as that all staff understand their task and responsibilities in relation to the CBC programme.

Referring to Point 1(d) of Annex B of Framework Agreement IPA II (2014-2020), it is foreseen that: “Staff planning, recruitment, retention, training and appraisal ensuring that mission statements, job descriptions, etc. are up to date and known to all staff”.

According to point 4.3 of PLCP it is stated that each employee of IPA Body must be informed about his tasks and sign Job Description in the beginning of his engagement. This document defines responsibilities and scope of each employee’s engagement in respective IPA Body.

Performing the work without an approved internal regulation and job descriptions can lead to the risk of not ensuring the proper understanding of staff assigned tasks, responsibilities and their internal functioning.

Recommendation:

The internal regulation and job descriptions have to be approved and distributed to all staff, in order to have proper understanding of staff assigned tasks, responsibilities and their internal functioning.

Results of follow up: Implemented

The internal regulation of SASPAC and job descriptions have been approved. The finding is closed.

➤ Finding N° 4: Exception request form not registered in the Register of Exceptions by Albanian CBC and CB Body

ICF requirement:

3. Control activities

(a) Selection and development of control activities

Level of priority: Intermediate

Body/-ies concerned by the finding: CBC Body ALB, CB

The audit mission found out that during the audit period the exceptions have not been recorded in the Register of Exceptions in both CBC Body and Control Body.

Referring to the Programme Level Control Procedures, Section 2 Internal Control Framework, Point 2 Exceptions, approval and registration, in the last paragraph it is stated:

“The exception must be registered at the level of IPA Body in the Register of Exceptions. All IPA Bodies are in charge to register the exceptions in order to have clear picture on all exceptions, as well as to have the evidence on date of their approval and introduction in the system. All IPA bodies shall develop the Register of Exceptions, which should be fulfilled by person identified by Head of respective IPA Body”.

During the period 2022-2023 there have been approved three Exception Request Forms (ERFs):

- The first ERF has been prepared by Head of CFCU Office in Montenegro on 16/03/2022 and approved by NAO on 06/04/2022,
- The second ERF has been prepared by Albanian Control Body on 17/06/2022 and approved by NAO on 23/09/2022,
- The third ERF has been prepared by HOS Office in Montenegro on 17/05/2023 and approved by NAO 29/05/2023.

The lack of registration of the exceptions may lead to not informing the staff about the changes that occurred in the procedure by incorrect implementation of the previous procedure.

Recommendation:

Albanian CBC and Control Body should develop the Register of Exceptions and update it appropriately and on time in order for the staff to be informed about the modification, their purpose and requiring their compulsory usage.

Results of follow up: Implemented

Albanian CBC Body has developed the Register of Exceptions in January 2024. The finding is closed.

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

Not applicable.

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

Not applicable.

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

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

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

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

5. AUDITS OF SAMPLES OF TRANSACTIONS

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

The audit of sample of transaction in the framework of IPA II 2014-2020 CBC Programme “Montenegro-Albania” was conducted by the Audit Authority of Montenegro according to Audit Strategy 2023-2025. In conducting the audit AA was assisted by the Group of Auditors composed of representatives of the Audit Authority of Montenegro who performed the audit in territory of Montenegro and representatives of the Audit Agency for the EU - Accredited Assistance Programmes of Albania who performed the audit in territory of Albania in accordance with Rules of procedures of Group of Auditors.

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

The sampling was performed by the Audit Authority in accordance with the method described in the Audit Strategy 2023-2025 adopted for the Programme and in accordance with international auditing standards and having regard to the EGESIF 16-0014-01 Guidance on sampling methods for audit authorities.

Bearing in mind small number of operations in accounting year 2023 the sample was selected applying non-statistical sampling method by random selection of items. Sample size has been determined taking into account AA overall assessment of the MCSS and EGESIF 16-0014-01 guidance regarding minimal sample size when applying non-statistical sampling.

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

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

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

During 2023 NAO submitted to EC Final Declaration regarding CBC Action Programme “Montenegro-Albania” for the year 2014 and Final Declaration regarding CBC Action Programme “Montenegro-Albania” for the year 2015. Regarding CBC Programme Montenegro-Albania for the years 2016, 2017, 2018, 2019 and 2020 no expenditures were declared to the European Commission in the financial year 2023. The audits of operations were performed on the sample of operations for which the expenditures were declared to the European Commission during 2023.

CBC Action Programme “Montenegro-Albania” for the year 2014

Final Declaration was sent to the European Commission on 28th June 2023 in total amount of cost recognised for the whole implementation period of 1.206.394,50 € (1.022.926,50 € EU part and 183.468,00 € private co-financing).

No negative items were present in the amounts declared to the Commission in Final Declaration.

Before the Final Declaration, NAO sent one Declaration of expenditure within Request for Funds submitted to EC on 30th July 2019 in total amount of cost recognised of 85.414,93€ (72.581,18€ EU part and

12.833,75€ private co-financing). These expenditures were in the scope of audit of operation performed in 2019 for the purpose of issuing Annual Audit Opinion for the year 2019.

Population for the audit of operation in the last reference period includes cost recognised declared in the Final declaration in amount of 1.206.394,50€ reduced by cost recognised declared in previous declaration from 30th July 2019 in amount of 85.414,93€. The population consists of four (4) operations including 1.120.979,57€ of total cost recognised out of which 950.345,32€ is EU part and 170.634,25€ is private co-financing (other sources).

Population is given in the table below:

Contract	Name of the Contract	Contractor	Contracted			Total amount paid by CFCU	Expenditures/cost recognised declared to EC by NAO	Cost recognised		
			EU part	Private co-financing	Total			EU part	Private co-financing	Total
FA 2014										
CFCU/MNE/051	Preserving Cultural Landscape of Albania and Montenegro	Polimski Museum	345.600,00	61.278,88	406.878,88	311.040,00	1.Expenditure declared on 30th July 2019	22.625,43	3.992,72	26.618,15
							2.Expenditure declared in Final Declaration	300.476,08	53.277,89	353.753,97
							3.Expenditures declared in reference period (2-1)	275.768,01	48.896,86	324.664,87
CFCU/MNE/052	Local Cuisine as Tourism Offer of Cross-border Region	RDA Bjelasica, Komovi and Prokletije	373.258,25	65.920,77	439.179,02	335.932,42	1.Expenditure declared on 30th July 2019	32.722,02	5.779,00	38.501,02
							2.Expenditure declared in Final Declaration	322.996,20	57.044,03	380.040,23
							3.Expenditures declared in reference period (2-1)	290.274,18	51.265,03	341.539,21
CFCU/MNE/053	Youth Montenegrins and Albanians in Raspberry Crops	Municipality of Petnjica	230.467,30	40.670,70	271.138,00	209.947,97	1.Expenditure declared on 30th July 2019	15.151,09	2.673,72	17.824,81
							2.Expenditure declared in Final Declaration	209.947,97	37.049,65	246.997,62
							3.Expenditures declared in reference period (2-1)	194.796,88	34.375,93	229.172,81
CFCU/MNE/054	Child Friendly Tourism in the Cross-Border Region	ADP Zid	216.592,82	41.255,78	257.848,60	194.933,53	1.Expenditure declared on 30th July 2019	0,00	0,00	0,00
							2.Expenditure declared in Final Declaration	189.506,25	36.096,43	225.602,68
							3.Expenditures declared in reference period (2-1)	189.506,25	36.096,43	225.602,68
Total			1.165.918,37	209.126,13	1.375.044,50	1.051.853,92	1.Expenditure declared on 30th July 2019	72.581,18	12.833,75	85.414,93
							2.Expenditure declared in Final Declaration	1.022.926,50	183.468,00	1.206.394,50
							3.Expenditures declared in reference period (2-1)	950.345,32	170.634,25	1.120.979,57

CBC Action Programme "Montenegro-Albania" for the year 2015

Final Declaration was sent to the European Commission on 28th July 2023 in total amount of cost recognised for the whole implementation period of 1.779.893,14€ (1.512.679,85€ EU part and 267.213,29€ private co-financing).

No negative items were present in the amounts declared to the Commission in Final Declaration.

For the whole period of Programme implementation, NAO submitted to the European Commission:

- Declaration of expenditure on 30th July 2019 in total amount of cost recognised of 117.525,20€ (99.883,60€ EU part and 17.641,63€ private co-financing),
- Declaration of expenditure on 29th September 2020 in total amount of cost recognised of 962.668,27€ (818.148,15€ EU part and 144.520,12€ private co-financing) and
- Final Declaration on 28th July 2023 in total amount of cost recognised of 1.779.893,14€ (1.512.679,85€ EU part and 267.213,29€ private co-financing).

Population for the audit of operation in the last reference period includes cost recognised declared in the Final declaration in amount of 1.779.893,14€ reduced by cost recognised declared in previous declaration from 29th September 2020 in amount of 962.668,27€. The population consists of four (4) operations including 817.224,87€ of total cost recognised out of which 694.531,70€ is EU part and 122.693,17€ is private co-financing (other sources).

Population is given in the table below:

Contract	Name of the Contract	Contractor	Contracted			Total amount paid by CFCU	Expenditures/cost recognised declared to EC by NAO	Cost recognised		
			EU part	Private co-financing	Total			EU part	Private co-financing	Total
FA 2015										
CFCU/MNE/048	The Feminine side of Quality	Municipality of Ulcinj	284.357,81€	50.180,79€	334.538,60€	255.922,03€	1.Expenditure declared on 29th September 2020	149.091,99€	26.310,34€	175.402,33€
							2.Expenditure declared in Final Declaration	243.771,50€	43.018,50€	286.790,00€
							3.Expenditures declared in reference period (2-1)	94.679,51€	16.708,16€	111.387,67€
CFCU/MNE/049	Green Lands	Municipality of Berane	399.215,22€	70.601,70€	469.816,92€	377.698,15€	1.Expenditure declared on 29th September 2020	166.738,85€	29.488,79€	196.227,64€
							2.Expenditure declared in Final Declaration	377.698,15€	66.796,38€	444.494,53€
							3.Expenditures declared in reference period (2-1)	210.959,30€	37.307,59€	248.266,89€
CFCU/MNE/050	Disasters do not know borders	FORS Montenegro	410.900,00€	72.638,35€	483.538,35€	409.053,05€	1.Expenditure declared on 29th September 2020	249.112,95€	44.037,86€	293.150,81€
							2.Expenditure declared in Final Declaration	409.053,05€	72.311,85€	481.364,90€
							3.Expenditures declared in reference period (2-1)	159.940,10€	28.273,99€	188.214,09€
CFCU/MNE/055	Augmenting Cooperation from Christian Antiquities Towards	Diocese of Budimlje and Nikšić	491.985,98€	86.821,06€	578.807,04€	482.157,15€	1.Expenditure declared on 29th September 2020	253.204,36€	44.683,13€	297.887,49€
							2.Expenditure declared in Final Declaration	482.157,15€	85.086,56€	567.243,71€
							3.Expenditures declared in reference period (2-1)	228.952,79€	40.403,43€	269.356,22€
Total			1.586.459,01€	280.241,90€	1.866.700,91€	1.524.830,38€	1.Expenditure declared on 29th September 2020	818.148,15€	144.520,12€	962.668,27€
							2.Expenditure declared in Final Declaration	1.512.679,85€	267.213,29€	1.779.893,14€
							3.Expenditures declared in reference period (2-1)	694.531,70€	122.693,17€	817.224,87€

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

Not applicable.

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

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

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

Bearing in mind small number of operations per programme (4 operations) the sample was selected applying non-statistical sampling method by random selection of items. Sample has been determined in size of 2 operations per programme taking into account AA overall assessment of the MCSS, Commission statement regarding minimal sample size when applying non-statistical sampling, and risks identified in previous audit engagements.

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

For audit of operation in respect to CBC Action Programme Montenegro-Albania for the year 2014 two (2) operations in overall amount of 567.141,89 € have been selected in the sample which represents 50% of the total number of units/operations (population) and 50,59% of total amount of declared costs.

For audit of operation in respect to CBC Action Programme Montenegro-Albania for the year 2015 two (2) operations in overall amount of 436.480,98€ have been selected in the sample which represents 50% of the total number of units/operations (population) and 53,41% of total amount of declared costs.

Taking into account the level of assurance provided by the system audits and risks identified, the AA considers that the drawn samples are sufficient to draw conclusions and an audit opinion.

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

<i>CBC Action Programme “Montenegro-Albania” for the year 2014</i>		
1	Amount of declared expenditures	1.120.979,57€
2	No of units in population	4
3	Value of the sample tested	567.141,89 €
4	Value of the sample tested in %	50,59%
5	No of units in sample	2
6	No of units in sample in %	50%
7	Materiality 2% of expenditure declared in reference period (tolerable misstatement) (1*2%)	22.419,59 €
8	Error amount determined by the audit	103,63 €
9	Sample error rate ((8/3)*100)	0,0183%
10	Projected random error (1*9)	205,14 €
11	Total projected error rate ((10/1)*100)%	0,0183%

<i>CBC Action Programme “Montenegro-Albania” for the year 2015</i>		
1	Amount of declared expenditures	817.224,87 €
2	No of units in population	4
3	Value of the sample tested	436.480,98 €
4	Value of the sample tested in %	53,41%
5	No of units in sample	2
6	No of units in sample in %	50%
7	Materiality 2% of expenditure declared in reference period (tolerable misstatement) (1*2%)	16.344,50 €
8	Error amount determined by the audit	0,00
9	Sample error rate ((8/3)*100)	0,00
10	Projected random error (1*9)	0,00
11	Total projected error rate ((10/1)*100)%	0,00

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

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

CBC Action Programme "Montenegro-Albania" for the year 2014

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

N ^o	Sampled Contracts (operations)	EU part	Private co-financing	Total cost recognised declared to the Commission	Expenditure audited (EUR)	Audited / Declared expenditure (%)
1	CFCU/MNE/052 Local Cuisine as Tourism Offer of Cross-border Region	290.274,18	51.265,03	341.539,21	341.539,21	100%
2	CFCU/MNE/054 Child Friendly Tourism in the Cross-Border Region	189.506,25	36.096,43	225.602,68	225.602,68	100%
Total		479.780,43	87.361,46	567.141,89	567.141,89	100%

Following bodies were covered during the audit:

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

Audit Authority carried out on-the-spot checks at the premises of Grant Beneficiaries, i.e. RDA for Bjelasica, Komovi and Prokletije from Contract CFCU/MNE/052 and Association for Democratic Prosperity ZID from Contract CFCU/MNE/054.

The Albanian GoA members carried out on the spot check at the premises of Albanian project partners, i.e. Eco-Partners for Sustainable Development and Puka Municipality from Contract CFCU/MNE/052 and Centre "Children Today" from Contract CFCU/MNE/054.

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

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

System findings:

No system findings identified during the audit.

Transaction findings:

- **Finding N° 1: Ineligible expenditure related to the Budget line: Local office costs (Office rent for RDA)**

Project name and number: Local Cuisine as Tourism Offer of Cross-border Region, N°: FCU/MNE/052

Project partner: RDA for Bjelasica, Komovi and Prokletije

Finding: Reviewing the Final Financial Report for the contract CFCU/MNE/052 it has been determined that controllers approved expenditures for the budget line 4. Local office (4.2.1 Office rent for RDA), in amount of 581,04€ gross for rent fee for the office. This amount refers to the payment of rent fee for October 2019 – March 2020, where the monthly amount is 96,84€ gross.

Reviewing the documentation, auditors concluded that reported amount in the Financial Report is in compliance with Lease agreement for the year 2019 concluded between lessor and RDA for Bjelasica, Komovi and Prokletije.

However, Lease agreement for the year 2020 between lessor and RDA for Bjelasica, Komovi and Prokletije was made to last from February 1st, 2020 to December 31st, 2021.

In the Final Financial Report, Lead Partner reported rent for January, 2020 in amount of 96,84€ and CFCU accepted that costs.

According to Guidelines on Financial Reporting, the local office budget line may include cost items such as office rent costs calculated on pro-rata base with documents which must be provided in order to prove the expenditure and the related payment (Contract or invoices for rent of office and proof of payment such as bank statements).

Auditors concluded that accepted costs for January, 2020 do not correspond with the Lease agreement signed between lessor and RDA for Bjelasica, Komovi and Prokletije. Having in mind this conclusion, the amount of **96,84€** is ineligible.

Additionally, corresponding indirect costs (according to Grant Contract General Conditions, article 14.7 maximum 7% of eligibility costs) are ineligible in the amount of **6,79€**.

Total ineligible expenditure: **103,63€** (EU part: 88,08€; other sources: 15,55€). *Level of priority: Major*

Recommendation:

We recommend recovery of identified ineligible expenditure in the overall amount of **103,63€**.

CBC Action Programme "Montenegro – Albania" for the year 2015

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

Nº	Sampled Contracts (operations)	EU part	Private co-financing	Total cost recognised declared to the Commission	Expenditure audited (EUR)	Audited / Declared expenditure (%)
1	CFCU/MNE/049 Green Lands	210.959,30€	37.307,59€	248.266,89€	248.266,89€	100%
2	CFCU/MNE/050 Disasters do not know borders	159.940,10€	28.273,99€	188.214,09€	188.214,09€	100%
Total		370.899,40€	65.581,58€	436.480,98€	436.480,98€	100%

Following bodies were covered during the audit:

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

Audit Authority carried out on-the-spot checks at the premises of Grant Beneficiaries, i.e. Municipality of Berane from Contract CFCU/MNE/049 and Foundation for the Development of Northern Montenegro - FORS from Contract CFCU/MNE/050.

The Albanian GoA members carried out on the spot check at the premises of Albanian project partners, i.e. Prefecture of Shkodra from Contract CFCU/MNE/050 and VIS Albania and Municipality of Malesi e Madhe from Contract CFCU/MNE/049.

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

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

Transaction findings - Findings which have financial impact

System findings:

➤ Finding N° 1: Deficiencies in implementation of On-the-spot verification by CFCU

Responsible body: IA/CFCU

Based on the submitted documents (On-the-spot Verification Reports and Checklists) during the audit, it is evident that CFCU staff conducted two on-the-spot verifications to the Grant Beneficiary “Municipality of Berane”, Coordinator of the project “Green Lands” for Contract CFCU/MNE/049, and two on-the-spot verifications to the Grant Beneficiary “FORS Montenegro”, Coordinator of the project “Disasters do not know borders” for Contract CFCU/MNE/050.

Namely, on-the-spot verifications for project CFCU/MNE/049 were conducted on 18th December 2018 for the purpose of interim payment and on 25th March 2021 for the purpose of final payment in the premises of the Municipality of Berane by Contract Manager, Financial Controllers and Accountant.

On-the-spot verifications for project CFCU/MNE/050 were conducted on 17th December 2018 for the purpose of interim payment and on 28th June 2021 for the purpose of final payment in the premises of the Tehnopolis/FORS Montenegro by Contract Manager and Financial Controllers.

Based on the submitted On-the-spot Verification Reports and Checklists, Audit Authority auditors concluded that:

1. Coordinator’s project documents – original supporting documents (procurement as well as financial documentation) have been subject of the desk review by CFCU staff,
2. Existence of the procured equipment and supplies referring to Contract CFCU/MNE/049 and its availability and usage at the envisaged project locations (laptops, printer, vehicle for Communal police, small vehicle for transport of waste from the distance places, containers for Green islands, set of cans for recycling for schools, bins for dry-wet approach, containers for dry-wet approach, installation of Green islands and landscaping of 8 locations, benches, tables and vases for green area) have not been checked during OTSC, even though in the period of conducted on-the-spot verification equipment has been delivered to the Final Beneficiaries,
3. Existence of the procured equipment and supplies referring to Contract CFCU/MNE/050 and its availability and usage at the envisaged project locations (aluminium bottom boats, rubber boats, outdoor boat engines, various types of rescue equipment, info boards) have not been checked during OTSC, even though in the period of conducted on-the-spot verification equipment has been delivered to the Final Beneficiaries.

Additionally, based on the template Annex 3.1 On-the-spot verification Checklist for Grant Contract (MoP v:2,0 Chapter: Contract implementation and On-the-spot verification), the Audit Authority auditors concluded that:

4. the Checklist was not developed at a satisfactory level and based on that auditors are not convinced that the existence of the equipment can be checked in a valid manner. Namely, the Checklist does not have detailed questions related to the existence of the equipment and visibility.

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

Level of priority: Intermediate

Recommendation:

We recommend to the CFCU to:

1. update OTSC Verification Checklist for Grant Contract with detailed questions related to the existence of the supplied equipment, performed works or any physical aspects of project implementation and visibility.

2. check/verify existence of the project equipment, facilities and other physical aspects of project through on-the-spot verification in the future period for all procurement to the Grant Beneficiaries as well as Final Beneficiaries.

➤ **Finding N° 2: Non-compliance with procedures related to the visibility of the project “Green Lands”**

Responsible body: *Coordinator of the project: “Municipality of Berane”,
Final Beneficiaries*

Audit Authority auditors conducted audit of the visibility of the equipment which has been supplied during implementation period of the project.

Based on the Communication and Visibility Manual for EU External Actions, it is stated that “it is obliged that all EU partners, whether they may be contractors, grant beneficiaries or entities managing funds on behalf of the European Commission, must ensure the visibility of EU financing.”

Coordinator of the project issued Communication and Visibility plan for project “Green Lands” and issued logo of the project.

Programme logo for IPA II 2014-2020 “Montenegro-Albania” has been issued.

- However, Audit Authority auditors have concluded that:

1. there is no logo of the programme and/or logo of the project in the following supplied equipment:
 1. Vehicle for Communal police (Communal police, Berane) and
 2. Small vehicle for transport of waste from the distance places (Utility company, Berane).
2. There is no visibility emblems/logo of the EU, programme and/or logo of the project in the following supplied equipment:
 1. Printer (premises of Coordinator of the project: Municipality of Berane);
 2. Containers for Green Islands (Utility company, Berane);
 3. Containers for dry-wet approach (Utility company, Berane);
 4. Benches, tables and vases for green area (Municipality of Berane);
 5. Set of cans for recycling for schools (High School “Panto Mališić”, Berane) and
 6. Laptop (premises: Primary School “Vukašin Radunović”).

Additionally, in the “Detailed instructions on the method of performing the list of movable and immovable things in state property” Article 5 it is stated that “Before the start of the inventory, the authority updates the accounting records, prepares data on property of others as well as its own property that is in the possession of other authorities or legal and natural persons, item inventory numbers, item names and units of measure, i.e. quantities.

Data on the inventory of immovable and movable items are entered in the inventory lists.

- However, Audit Authority auditors have concluded that there are no inventory numbers in the following supplied equipment:

1. Laptop (premises: Primary School “Vukašin Radunović”) and
2. Set of cans for recycling for schools (High School “Panto Mališić”, Berane).

Level of priority: *Intermediate*

Recommendation:

We recommend to the Coordinator of the project: “Municipality of Berane” to:

1. provide to the supplied equipment EU emblems, project logo and/or programme logo
2. provide “Detailed instructions on the method of performing the list of movable and immovable items in state property” to the final beneficiaries.

Transaction findings:

No transaction findings were identified during the audit.

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

During the audit of operation in 2023 in respect to allocation for the year 2014 we identified 1 finding with financial impact in total amount of 103,63€ (0,0183%). As this error is treated as random error, it is projected (extrapolated) to the whole population (1.120.979,57€), and the projected (extrapolated) error is 205,14 €.

As for allocation for the year 2015 no irregular expenditures were detected during the audit.

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.

For the allocation 2014 based on the audit work performed we have obtained reasonable assurance that the expenditure declared in the amount of 1.120.979,57€ in the period 01/01 – 31/12/2023 is in all material aspects, legal and regular, except expenditures described in the point 5.8 of this report. Total projected error on the overall population is 205,14€ (0,0183%) and it is below the materiality threshold of 22.419,59€ (2%).

For the allocation 2015 no irregular expenditures were detected during the audit. We have obtained reasonable assurance that the expenditure declared in the amount of 817.224,87€ in the period 01/01 – 31/12/2023 is in all material aspects, legal and regular.

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.

Amount of 103,63€ identified as ineligible expenditures during the audit of operation performed for allocation 2014 has been corrected. No ineligible expenditures identified during audits of operation for allocation 2015.

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

Due to the fact that the financial correction is implemented in the current financial year, residual total error rate is 0.

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

Not applicable.

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

See Part 7.1. Follow-up of previous years' audit activity - *Status of audit of operation findings* and Part 6.2 - *Follow up of previous year' audit of accounts*

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

Not applicable. Findings identified are not systemic in nature.

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

Not applicable.

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

Not applicable.

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

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

Based on the audit work performed we have obtained reasonable assurance that the expenditure declared in respect to CBC Programme Montenegro – Albania for the year 2014 in the amount of 1.120.979,57€ in the period 01/01/2023 – 31/12/2023 is in all material aspects, legal and regular, except expenditures described in the point 5.8.

Based on the audit work performed we have obtained reasonable assurance that the expenditure declared in respect to CBC Programme Montenegro – Albania for the year 2015 in the amount of 817.224,87€ in the period 01/01 – 31/12/2023 is in all material aspects, legal and regular.

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

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

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

The audit of the annual financial reports or statements/annual account in the framework of IPA II 2014-2020 CBC Programme “Montenegro-Albania” was conducted by the Audit Authority of Montenegro according to Audit Strategy 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-Albania” 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		Next 12 months
CBC MNE-ALB 2014	2014/037-593	1.022.838,41	0,00	1.022.838,42	183.452,45	0,00	0,00	88,08	0,00
CBC MNE-ALB 2015	2015/038-158	1.511.659,44	0,00	1.511.659,44	267.032,83	0,00	0,00	73.779,16	0,00
CBC MNE-ALB 2016	2016/038-174	1.183.983,52	0,00	524.364,42	92.690,18	659.619,10	0,00	421.379,38	311.922,42
CBC MNE-ALB 2017	2017/038-175	943.306,92	0,00	510.315,60	90.055,68	432.991,32	0,00	107.950,52	77.541,66
CBC MNE-ALB 2018	2018/041-468	756.921,89	0,00	0,00	0,00	756.921,89	0,00	603.078,11	798.217,59
CBC MNE-ALB 2019	2019/041-470	293.229,60	0,00	0,00	0,00	293.229,60	0,00	1.066.770,40	85.445,40
CBC MNE-ALB 2020	2020/041-471	0,00	0,00	0,00	0,00	0,00	0,00	1.224.000,00	1.224.000,00

During the audit AA took into consideration the results both of the system audits and of the audit of operations, as well as results of follow up of findings issued in the previous audits. 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:

- a) 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;
- b) 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;
- c) 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);
- d) reconciliation of the accounting records and cash flow statements of the National Fund Division (NF) and Implementing Agency (CFCU) is performed;
- e) total amounts of recoveries correspond to supporting documents for recoveries.

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

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

See reconciliation table below:

Programme/Grant beneficiary				NF Accounting System														IA/CFCU										
Name of allocation	Current contract value/ EU part	Current contract value/ Other sources	Source	Payment Request by Grant beneficiary	RFF from IA	Record in NF Acc system	Bridge Financing	Record in NF Acc system	RFFs to EC	Record in NF Acc system	Bank statement MF-NF-IPA Acc	Record in NF Acc system	Bank statement State Treasury Main Acc	Record in NF Acc system	Financial Forecast	Cost recognised EU part	Cost incurred and accepted but not yet paid EU Part	Calculation by AA	Payment Order	Bank statement	Record in CFCU Acc system	Pre-financing paid	Pre-financing cleared	Cost accepted EU part	Open pre-financing	Recovery by Coordinator	Calculation by AA	Recovery
CBC MNE-AL 2014	1.165.918,37	209.126,13	Pre-financing	1.062.344,91	1.051.853,92	1.051.853,92	246.304,27	246.304,27	1.051.853,92	1.051.853,92	1.051.853,92	1.051.853,92	1.051.853,92	1.051.853,92	0,00	1.022.838,42	0,00	1.022.838,42	1.051.853,92	1.051.853,92	1.051.853,92	1.051.853,92	1.022.838,42	0,00	-0,01	29.015,51	29.015,50	-0,01
			Further pre-financing																									
			Final payment																									
CBC MNE-AL 2015*	1.586.459,01	280.241,90	Pre-financing	1.526.672,49	1.524.830,38	1.524.830,38	329.145,40	329.145,40	1.524.830,38	1.524.830,38	1.524.830,38	1.524.830,38	1.524.830,38	1.524.830,38	0,00	1.511.659,44	0,00	1.511.464,93	1.524.830,38	1.524.830,38	1.524.830,38	1.524.830,38	1.511.659,44	0,00	0,00	13.170,94	13.365,45	194,51
			Further pre-financing																									
			Final payment																									
CBC MNE-AL 2016**	1.605.362,90	283.989,74	Pre-financing	1.183.983,52	1.183.983,52	0,00	0,00	1.183.983,52	1.183.983,52	1.183.983,52	1.183.983,52	1.183.983,52	1.183.983,52	311.922,42	524.364,42	0,00	524.346,96	1.183.983,52	1.183.983,52	1.183.983,52	1.183.983,52	524.364,42	0,00	659.619,10	0,00	659.636,56	17,46	
			Further pre-financing																									
CBC MNE-AL 2017	1.051.257,44	185.516,01	Pre-financing	946.131,69	943.306,92	943.306,92	0,00	0,00	943.306,92	943.306,92	943.306,92	943.306,92	943.306,92	77.541,66	510.315,60	0,00	510.315,60	943.306,92	943.306,92	943.306,92	943.306,92	510.315,60	0,00	432.991,32	0,00	432.991,32	0,00	
			Further pre-financing																									
CBC MNE-ALB 2018	1.700.000,00	305.144,47	Pre-Financing	756.921,89	756.921,89	756.921,89	0,00	0,00	756.921,89	756.921,89	756.921,89	756.921,89	756.921,89	756.921,89	798.217,59	0,00	0,00	0,00	756.921,89	756.921,89	756.921,89	756.921,89	0,00	0,00	756.921,89	0,00	756.921,89	0,00
CBC MNE-ALB 2019	420.309,76	74.172,31	Pre-financing	293.229,60	293.229,60	293.229,60	0,00	0,00	293.229,60	293.229,60	293.229,60	293.229,60	293.229,60	293.229,60	0,00	0,00	0,00	0,00	293.229,60	293.229,60	293.229,60	293.229,60	0,00	0,00	293.229,60	0,00	293.229,60	0,00
CBC MNE-ALB 2020	0,00	0,00	N/A	N/A	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	1.224.000,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00

* Column recovery: Amount of recovery which should be recognised by CFCU and recovery based on the findings recognised during the system audit for 2019 and audit of operation for 2020 and results of follow up presented in the Audit Recommendation Status Report issued for 2023= 78,52+115,996= 194,51

** Column recovery: Amount of recovery which should be recognised by CFCU and recovery based on the findings recognised during the audit of operation for 2022 and results of follow up presented in the Audit Recommendation Status Report issued for 2023 = 17,46 €

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

- 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 out of 4 findings which remained open after the previous Annual Audit Activity Report, 2 of them are closed during the follow up.

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>Incorrectly presented amount of recovery in the field “Recovery context” in AFR1</p> <p>According to the requirements of Annex 4 (a) of the Financing agreement for CBC Programmes Montenegro-Albania 2015 the amount of recoveries has to be presented in the field “Recovery context”.</p> <p>By the insight into AFR1 for 2022, for CBC MNE-ALB 2015, in the field “Recovery context” – Column N°:17 “No context” the total amount presented is 12.150,53€.</p> <p>Audit Authority auditors determined that for presented amount the Conclusion on established irregularities N°: 18-908/22-10804/1 with supporting documents submitted to the relevant institution as well as information related to the irregularities was entered into the AFIS Portal.</p> <p>Additionally, Irregularity Register as well as Debtor Ledger have been updated in accordance with the procedures.</p> <p>Bearing in mind the fact that the existence of irregularities related to Grant Contract CFCU/MNE/048 has been identified and established, Audit Authority auditors concluded that amount of the recovery (12.150,53€) should be entered into the field “Recovery context” – Column N°:15 “Irregularities”.</p>	<p><u>Implemented.</u></p> <p>Based on the submitted AFR for 2023 it is evident that NF took into account Audit Authority auditors recommendations.</p> <p><u>The finding is closed.</u></p>	
2.	<p>Influence on the completeness, accuracy and veracity of the Annual Financial Reports for 2022</p> <p>Reviewing the Annual Financial Report for 2022 it has been determined that financial corrections identified during Audit of operation have not been taken into account, which is not in accordance with the Framework Agreement, Article 36 –</p>	<p><u>Not implemented.</u></p> <p>Based on the submitted AFR for 2023 it is evident that CFCU and NF didn't take into account Audit Authority auditors recommendations.</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 Head of FD</p>

	<p>Examination and acceptance of accounts procedures.</p> <p>Namely, in the Final Audit of Operation Report N°: 3011-2-06-133, from 13th February 2023, it is concluded that costs related to the activity 2. Travel (2.1 International travel) and corresponding indirect costs are ineligible in total amount of 20,55€ (EU part: 17,46€; other sources: 3,09€) for CBC Programme “Montenegro-Albania” for the year 2016.</p> <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 take into account ineligible expenditure prescribed in the Final Audit of Operation Report during issuing Annual Financial Report for 2022. Cost recognised in Annual Financial Report for 2022 for CBC Programme “Montenegro-Albania” for the year 2016 is not corrected in relation to determined financial correction by Audit Authority.</p>	<p>For Contract CFCU/MNE/159, it is concluded that costs related to the activity 2. Travel (2.1 International travel) and corresponding indirect costs are ineligible in total amount of 20,55€ (EU part: 17,46€; other sources: 3,09€).</p> <p>Implementation of the recommendation will be monitored in the following period.</p>	<p>NAO Head of FD Head of NAOAO</p> <p><i>New deadline:</i></p> <p>Next Declaration/Financial Report for NF</p>
N°	Findings identified during the audit of accounts 2021	Status in February 2024	Priority level and new deadline for implementation
1.	<p>Deficiency in process of recovery of funds/Lack of identification of irregularities</p> <p>Reviewing the Annual Financial Report for 2021 as well as Year-end cut off Report for 2021 it is evident that recovery of funds was recognised for Contract CFCU/MNE/048 in total amount of 12.150,53€. Register of recovery of funds as well as Debtor Ledger is filled-in and entered into the SAP, in accordance with the written procedures.</p> <p>Namely, CFCU detected that for Contract CFCU/MNE/048 total received amount of pre-financing and further pre-financing exceeds the total amount of eligible cost in the amount of 12.150,53€. Total paid amount for pre-financing and further pre-financing is 255.922,03€. Total amount of cost recognised is 243.771,50€.</p> <p>Based on that, CFCU sent to the Contractor:</p>	<p><u>Implemented</u></p> <p>During the follow up it has been determined that:</p> <p>1. Amount of 12.150,53 € has been recovered from project Coordinator Municipality of Ulcinj in project CFCU/MNE/048 but with delay. CFCU sent Notification Letter/Correction of request for recovery of funds on 8th September 2021 with deadline for recovery of funds on 8th October 2021. The coordinator did not recover the funds until 4th October 2023.</p> <p>2. Conclusion on established irregularity was approved by the Head of the Operating Structure (HoS) on 25th March 2022 and verified by the National Authorizing Officer (NAO) on 6th April 2022. Irregularity Alert Form, Irregularity Register and Conclusion on</p>	

	<p>1. Notification Letter/Correction of request for recovery of funds on 8th September 2021 with deadline for recovery of funds on 8th October 2021.</p> <p>2. Notification Letter/Reminder for recovery of funds on 3rd November 2021 with new deadline for recovery of funds on 18th December 2021, bearing in mind that refund was not carried out until requested deadline.</p> <p>3. Notification Letter/Second reminder for recovery of funds on 27th December 2021 with a new deadline for recovery of funds on 26th January 2022, bearing in mind that refund was not carried out until requested deadline.</p> <p>Based on the submitted requested documents and conducted interview, Audit Authority auditors concluded that CFCU hadn't followed procedures in respect to the irregularities. Irregularity Alert Form, Irregularity Register and Conclusion on irregularities were not prepared and weren't uploaded in the Irregularity Management System at the moment of calculation of the refund. Additionally, CFCU didn't initiate judicial proceedings in accordance with the written procedures, due to breach of deadlines.</p>	<p>irregularities are uploaded in the Irregularity Management System.</p> <p>Bearing in mind above-mentioned, finding is closed.</p>	
N°	Findings identified during the audit of accounts 2020	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 2020 for CBC Programme Montenegro-Albania 2015 it has been determined that financial corrections identified during Audit of operation in amount of 516,07€ have not been used into account during the preparation of AFR for 2020.</p> <p>CFCU did not issue updated Written Approval Letters with modification of the total cost recognised and insert relevant documents into the SAP.</p> <p>Also, NF didn't use into account ineligible expenditure prescribed in the Final Audit Operation Report and did not reduce cost recognised in AFR for 2020 for the amount of determined ineligible expenditures.</p>	<p>Partly implemented</p> <p>During the follow up of audit of operation performed in January 2022 it was determined that out of 516,07€, 56,94€ reported within budget line 5.7.15 and 3,99€ of related indirect costs are considered eligible.</p> <p>During the follow up of audit of operation performed in January 2023 it was determined that out of remaining amount of 455,14:</p> <ol style="list-style-type: none"> 1. For CFCU/MNE050 amount of 51,40€ reported within budget line 5.7.15 and 3,60€ of related indirect costs are considered eligible. 2. For CFCU/MNE/055 amount of 91,44€ and 6,397€ of related indirect cost are considered eligible costs. 3. For CFCU/MNE/055 ineligible amount of 136,46€ (115,99€ EU Part and 20,47€ Private Contribution) within budget line Human Resources have not been deducted from cost recognised. 4. For CFCU/MNE/055 ineligible amount of 154,993€ reported within budget line 4.3 	<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>

		<p>Consumables-office and corresponding indirect cost in amount of 10,85€ were deducted from the cost recognised within revised Confirmation of eligibility of expenditures issued by Control Body on 19th May 2023.</p> <p>Based on the recommendation given to the CFCU, financial correction must be included in next declaration/ financial reports.</p> <p>Amount of 136,46€ should be deducted from cost recognised.</p>	
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6.3 Indication of the conclusions drawn from the results of the audits in regard to the completeness, accuracy and veracity of the declaration of expenditure and financial statements, including an indication on the financial corrections made and reflected in the declaration of expenditure and financial statements as a follow-up to the results of the audit on transactions/operations.

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

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

System audit performed during 2023 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 has resulted in financial corrections regarding the reference period. Namely, in the Final Audit of Operation Report No: 3011-2-06-445 from 26th September 2023, it is concluded that costs in total amount of 103,63€ (88,08€ EU part and 15,55€ private contribution) for CBC Programme “Montenegro-Albania” for the year 2014 are ineligible. Annual Financial Report (column: Cost recognised and Open pre-financing) has been corrected for the above-mentioned amount.

The audit finding issued within the audit of operation performed in 2022 and results of follow up with financial correction in totally amount of 20,55€ (17,46€ EU part and 3,09€ private contribution) have influence on the completeness, accuracy and veracity of the Annual Financial Reports for 2023 for CBC Programme “Montenegro-Albania” for the year 2016. Costs recognised and Open pre-financing in the Annual Financial Report for 2023 are not corrected for the amount of determined financial correction.

The audit finding issued within the audit of operation performed in 2020 and results of follow up with financial correction in totally amount of 136,46€ (115,99€ EU part and 20,47€ private contribution) have influence on the completeness, accuracy and veracity of the Annual Financial Reports for 2023 for CBC Programme “Montenegro-Albania” for the year 2015. Costs recognised and Open pre-financing in the Annual Financial Report for 2023 are not corrected for the amount of determined financial correction.

Additionally, during the system audit performed in 2019 and during the follow up of findings it was determined ineligible expenditures in amount of 92,38€ (78,52€ EU part and 13,86€ private contribution) related to 2015 allocation. Annual Financial Report for 2023 (column: Cost recognised and Open pre-financing) has not been corrected for the above-mentioned amount.

Based on the audit work performed Audit Authority auditors have obtained reasonable assurance on the completeness, accuracy and veracity of the amounts declared in the accounts submitted to the Commission for the accounting year 2023, except amounts of Cost recognised and Open pre-financing (194,51€ EU Part and 34,56€ Private Contribution) related to the CBC Programme “Montenegro-Albania” for the year 2015 and except amounts of Cost recognised and Open pre-financing (17,46€ EU Part and 3,09 Private Contribution) related to the CBC Programme “Montenegro-Albania” for the year 2016.

Correction which should be made are below materiality level of 2% (84.048,18€ for Cost recognised and 42.855,24€ 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 Albanian GoA members carried out follow up of implementation of recommendation related to open findings from the previous years. Results of follow up were presented in Final System audit report.

Additionally, in the period January – February 2024 we performed follow up as separate activity before issuing the AAAR and AAO. Follow up covered the findings and recommendations given during system audit performed in 2023 as well as open findings from previous years' system audits, audit of operation and audit of accounts. Results of follow up were presented in Audit Recommendations’ Status Reports which were submitted to all IPA Bodies in Montenegro and Albania.

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

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

N°	Findings identified during the System audit 2017	Body	Status in February 2024	New deadline
1.	Deficiency in the MoP Written Procedures	NAOSO	<i>Not implemented</i> 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.	6 months

			<p>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).</p> <p>Level of priority: <i>Minor</i></p>	
2.	Inadequate backup of data and insufficient number of trainings related to IT	NF NAOSO 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.</p> <p>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> <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>	3 months
N ^o	Findings identified during the System audit 2019	Body	Status in February 2024	New deadline
1.	Functioning of Operating Structure	NIPAC MNE NAO	<p><i>Closed</i></p> <p>Bearing in mind the fact that:</p> <p>1. Implementation of all contracts signed under allocation Montenegro-Albania for</p>	

		HOS MNE CFCU	<p>2014 and Montenegro-Albania 2015 has been finished and final payments executed;</p> <ul style="list-style-type: none"> - All Confirmations have been submitted for the Contract CFCU/MNE/055 by Control Body; - Control Body carried out the verification of the expenditure of Albanian project partners which were previously verified by CFCU, <p>finding can be considered closed.</p>	
2.	Audit trail for travel costs	CFCU CB	<p><i>Not implemented</i></p> <p>Based on the submitted evidence related to the audit trail for travel costs it is evident that:</p> <ol style="list-style-type: none"> 1. Regarding Contract CFCU/MNE/049 out of approved 1.500,00€, eligible cost is 1.413,66€ (based on the Compressive Travel Book – Fuel Bill). <p>Audit Authority auditors concluded that <u>ineligible travel cost is 86,34€.</u> <u>Corresponding amount of indirect cost is 6,04 €.</u> <u>Total amount of ineligible cost is 92,38 € (78,52 € EU part, 13,86 € other sources).</u> This amount has not been deducted from the cost recognized.</p> <ol style="list-style-type: none"> 2. Regarding Contract CFCU/MNE/055 costs related to travel (fuel) have been rejected in the amount of 76,50€, in accordance with the Audit Authority auditor’s recommendation. 3. Regarding Contracts CFCU/MNE/051 and CFCU/MNE/052 Written Approval Letters and Clarifications have been submitted. <p>Taking into consideration the above-mentioned:</p> <ul style="list-style-type: none"> - part of finding related to the verification of costs have been implemented i.e. part related to the Contract CFCU/MNE/055, as well as for Contract CFCU/MNE/051 and CFCU/MNE052. - part of finding related to the verification of costs have not been implemented i.e. part related to the Contract CFCU/MNE/049. 	Immediately

			Ineligible costs in amount of 86,34 € and corresponding indirect costs in amount of 6,04 € have not been deducted from the cost recognised declared in Final Declaration. Total amount of ineligible cost is 92,38 € (78,52 € EU part, 13,86 € other sources). Level of priority: <i>Intermediate</i>	
N°	Findings identified during the System audit 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	<i>Not implemented</i> Delays in performing verifications of expenditures by CFCU and CB and payment executions are still evident. Finding remains open. However, bearing in mind that finding relates to contracts from allocations 2014 and 2015 for which the activities have been completed and Final Declaration submitted to EC, implementation of the recommendations will be monitored through Finding No. 1 Failure to meet prescribed deadlines (for allocations Montenegro-Albania 2016 and 2017) from system audit 2022 (System audit report No. 3011-1-06-14 from 12 th January 2023) Level of priority: <i>Major</i>	Immediately
2.	No evidence related to the verified costs	CFCU	<i>Closed</i> Based on the submitted documents related to the payment execution for Contract CFCU/MNE/050 it is evident that CFCU: <ol style="list-style-type: none">1. Filled-in Checklist for Grant Contract: Final payment in amount of 39.243,05€.2. Filled-in Checklists: Request for funds and Eligibility of expenditures in amount of 39.243,05€.3. Filled-in Checklist IA Request for funds in amount of 39.243,05€.4. Sent Notification Letter to the HOS.5. After approval by HOS and NAO,	

			CFCU executed payment in amount of 39.243,05€. Payment order was created in amount of 39.243,05€ on 7 th June 2023. Finding can be considered closed.	
3.	Discrepancy between approved amount in the Grant Contracts Award Notice table and approved amount in the signed Contract	CFCU	Closed CFCU/Publicity Officer submitted proof that updated version of Grant Contract Award Notice have been attached in the programme website (https://www.cbc-mne-alb.org/calls-for-proposals/2nd-call-for-proposals/). Audit Authority auditors can conclude that conducted activities related to the publishing of Grant Contracts Award Notice have been implemented in accordance with the recommendations. Finding can be considered closed.	
4.	Technical errors observed in process of control and supervision of grant beneficiaries' financial reports and payment requests	CFCU	Not implemented It was determined that FC1 and FC2 started filling out Checklists manually in hard copy. 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. Level of priority: <i>Intermediate</i>	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	Not implemented Delays in performing verifications of expenditures by CFCU and CB and payment executions are still evident. Level of priority: <i>Major</i>	Immediately
2.	No evidence related to the verification of payment request	CFCU	Closed Checklist for Grant Contracts for Interim Payments for Contract CFCU/MNE/159 has been prepared in accordance with the Audit Authority auditors' recommendations. Finding can be considered closed.	

N°	Findings identified during the System audit 2023	Body	Status in February 2024	New deadline
1.	Mistake related to the calculation of the Relevance of the action	CFCU	<p><i>Not implemented</i></p> <p>Bearing in mind that evaluation of the application for 4th Call for Proposals has not been finished yet finding is still open.</p> <p>Level of priority: <i>Major</i></p>	During next evaluation process
2.	Deficiencies related to procedures for monitoring of sustainability	NAO HOS NAO SO HOS OFFICE	<p><i>Closed</i></p> <p>Based on the Audit Authorities auditor recommendation, HOS Office improved the existing checklist (Annex 4 – Checklist sustainability of project) adding question related to the result and objectives achieved and detailed procedures for sampling projects for monitoring of sustainability of grant contracts.</p> <p>HOS Office initiated exception request related to the Annex 4. NAO approved exception request form.</p> <p>Finding can be considered closed.</p>	
3.	No evidence related to risk analysis for transaction level verification	HOS OFFICE	<p><i>Partly implemented</i></p> <p>Based on the submitted documents it is evident that HOS Office described risk assessment in hand-written form and informally. Risk assessment has not been performed according to Annex 2 of MoP Chapter Management Verification and has not been signed by officers who performed, reviewed and approved risk assessment.</p> <p>Level of priority: <i>Intermediate</i></p>	Preparation of the next Annual OTSC Plan or update of current plan

Out of 13 findings which remained open after the previous Annual Audit Activity Report, 5 of them are closed during the follow up.

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

N°	Findings identified during the System audits 2017 - 2022	Body	Status in February 2024	New deadline
	No open findings			
N°	Findings identified during the System audit 2023	Body	Status in February 2024	New deadline
1.	Delays in expenditure verification process for the contracts CFCU/MNE/162 and CFCU/MNE/157	CB CFCU	Not implemented Delays in process of verification of expenditures is still evident. - The Contracting Authority shall insure to forward officially to Control Body only the signed and stamped financial reports as according to the ERF approved by NAO on 23/09/2022. - CA should provide proper coordination of the whole process of expenditure verification and provide adequate guidance to the Coordinator and CB in accordance with the PLCP. Level of priority: <i>Intermediate</i>	Immediately
2.	Procedure for the approved exceptions not included in the PLCP	NAO HOS MNE HOS ALB	Partly implemented Based on the management comments and documents provided the PLCP has been revised but not yet approved. It is recommended that changes introduced by approved Exception Request Form should be properly reflected in PLCP and approved as soon as possible. Level of priority: <i>Intermediate</i>	Immediately
3.	Lack of Internal regulation and Job descriptions of Albanian CBC Body and HOS at State Agency of Strategic Programming and Aid Coordination (SASPAC)	HOS/CBC Body ALB	Closed The Internal regulation and job descriptions have been approved. The finding is considered closed.	
4.	Exception request form not registered in the Register of	CBC Body ALB	Closed	

Exceptions by Albanian CBC and CB Body	CB	Albanian CBC Body has developed the Register of Exceptions in January 2024. The finding is considered closed.	
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Out of 4 findings that were determined during the system audit performed in 2023, two of them are closed during the follow up. There are no open findings from previous years.

Status of audit of operation findings:

N°	Findings identified during the Audit of operation 2019	Body	Status in February 2024	New deadline
1.	Procedures for control of eligibility of expenditure	CFCU	<i>Not implemented</i> Controllers do not perform administrative verification of fulfilment of criterion relating to the accounting. They confirmed the fulfilment of this criterion in administrative control check list but without adequate supporting documents related to accounting entries. Accounting evidence was checked only during the on the spot control which was not performed before approval of each Interim report. Level of priority: <i>Intermediate</i>	Until the approval of the next/Final Progress Financial Report
N°	Findings identified during the Audit of operation 2020	Body	Status in February 2024	New deadline
1.	Ineligible expenditure related to point 4.3 Consumables-office (Project: CFCU/MNE/055 “Augmenting Cooperation – from Christina Antiquities Towards Enhanced Tourism”)	CB	<i>Closed</i> As agreed with the Contracting Authority, the CB has applied the deduction of the ineligible amount of 165,85 € (B.L 4.3: 154,993€ ineligible expenditure +10,85€ indirect cost) at the revised Confirmation on eligible expenditure for the Second Reporting period signed on 19.05.2023. (official letter no.539) The finding is closed.	
N°	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	<i>Not implemented</i> During OTSC Audit Authority auditors were not convinced of the existence of an audit trail. Finding remains open. Level of priority: <i>Intermediate</i>	3 months
2.	Delays in further pre-financing payment to the coordinator	CFCU CB	<i>Not implemented</i> Delay in verification process by CB and CFCU is still evident as well as in payment execution by CFCU. Finding remains open. Level of priority: <i>Major</i>	Immediately
3	Ineligible expenditure related to the Budget line: Travel (Travel costs)	CFCU	<i>Not implemented</i> Ineligible expenditures in amount of 20,55€ (EU Part 17,46€ and Private Contribution 3,09€) for Contract CFCU/MNE/159 have not been rejected form cost recognized and recovered. Level of priority: <i>Major</i>	Immediately
N°	Findings identified during the Audit of operation 2023	Body	Status in February 2024	New deadline
1	Ineligible expenditure related to the Budget line: Local office costs (Office rent for RDA)	CFCU	<i>Closed</i> Based on the submitted documents it is evident that Coordinator of the project, CFCU/MNE/052 recovered identified ineligible expenditure in the amount of 88,08€ EU Part.	

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

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

Not applicable.

8. OTHER INFORMATION

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

Not applicable.

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

Not applicable.

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

Contracting Authority published 4th Call for proposals on 17th March 2023. The overall indicative amount made available under this call for proposals was 2,809,690.24 € merging 2019 allocation in amount of 1.279.690,24 € and 2020 allocation in amount of 1.530.000,00 €. According to signed Financial Agreement for the year 2019 final date for concluding contracting expired on 18th December 2020.

However, due to the slow evaluation process and ineffective communication between two operating structures contracting deadline for 2019 allocation has been breached and funds available from that allocation have been lost. Out of total available amount of 1.700.000,00 € from 2019 allocation only amount of 420.309,76 € has been contracted within 3rd Call in December 2022.

It has impact on annual audit opinion on the proper functioning of the system for CBC Programme Montenegro-Albania for the years 2019.

9. OVERALL LEVEL OF ASSURANCE

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

Regarding CBC Programme Montenegro-Albania for the years 2014 and 2015 the assurance on the proper functioning of the management and control system is based on the combined results of both the system audit (system assessment – please see section 4 above) and the audit of operations (please see section 5 above).

The assessment of MCSS as *works, but some improvement(s) are needed* resulting from the system audit and follow-up activities is confirmed also by the results of the audit of operations, as the determined total error rate is below materiality level. Therefore, as the management, control and supervision system is assessed as works and the total error rate is below the materiality level, we will issue an unqualified opinion on the proper functioning of the system and on the legality and regularity of expenditure for CBC Programme MNE-ALB for the years 2014 and 2015.

As for CBC Programme Montenegro-Albania for the years 2016, 2017, 2018, 2019 and 2020 overall level of assurance could not be obtained bearing in mind that Audit Authority did not perform audit of operations

in the reference period since no expenditure were declared to the European Commission in the financial year 2023 for indicated financial allocation. The assurance on the proper functioning of the management and control system is based only on the result of the system audit (system assessment – please see section 4 above), and taking into account the results of the follow-up of the findings given in the previous years as well as the follow-up of the findings given during the system audit carried out during the current year where the management, control and supervision systems is assessed as *works, but some improvement(s) are needed*.

On the basis of above mentioned, we will issue an unqualified opinion on the proper functioning of the system (except for allocation 2019) and disclaimer of opinion on the legality and regularity of expenditure.

Regarding the CBC Programme Montenegro-Albania for the year 2019 qualified opinion on the proper functioning of the system will be issued for the reasons stated in part 8.3 of the report as well as 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.

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

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

During the audit of accounts, we identified that financial corrections determined during the audit of operation performed in 2023 in amount of 103,63€ (88,08€ EU part and 15,55€ private contribution) for CBC Programme “Montenegro-Albania” for the year 2014, have been included in financials statement for 2022, i.e. annual accounts (Column: Cost recognized and Open pre-financing) have been corrected for these amounts.

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) 9352 2014/037-593	CBC Programme Montenegro-Albania 2014	1.120.979,57	567.141,89	50,59%	4	2	103,63	0,0183%	0,0183%	103,63	0	N.a	N.a
IPA	C (2014) 9352 2015/038-158	CBC Programme Montenegro-Albania 2015	817.224,87	436.480,98	53,41%	4	2	0	0%	0%	N.a	N.a	N.a	N.a
IPA	C (2014) 9352 2016/038-174 2017/ 038-175 2018/041-468 2019/041-470 2020/041-471	CBC Programme Montenegro-Albania 2016-2020	/	/	/	/	/	/	/	/	/	/	/	/