

ANNUAL AUDIT ACTIVITY REPORT



**MONTENEGRO
AUDIT AUTHORITY**

No: 3011-4-06-184

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**ANNUAL AUDIT ACTIVITY REPORT
FOR
2015-2017 SECTORAL OPERATIONAL PROGRAMME FOR
MONTENEGRO ON EMPLOYMENT, EDUCATION AND
SOCIAL POLICIES (SOPEES)
(CRIS No 2015/037-895)**

**FOR THE PERIOD
1st JANUARY 2023 – 31st DECEMBER 2023**

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LIST OF ABBREVIATIONS

AA	Audit Authority of Montenegro
AAAR	Annual Audit Activity Report
AAO	Annual Audit Opinion
AMD	Annual Management Declaration
CFCU	Central Finance and Contracting Unit
CPA	Capital Projects Administration
DG NEAR	Directorate General for Neighbourhood and Enlargement Negotiations
DMS	Directorate for Management Structure
EAM	Employment Agency Montenegro
EC	European Commission
EU	European Union
FWA	Framework Agreement
IA	Implementing Agency
IAU	Internal Audit Unit
ICFR	Internal Control Framework Requirement
IPA II	Instrument for Pre-Accession Assistance II perspective
IPA	Instrument for Pre-Accession Assistance
ISA	International Standards on Auditing
MCSS	Management, Control and Supervision System
MESI	Ministry of Education, Science and Innovation
MoE	Ministry of Education
MF	Ministry of Finance
MHMR	Ministry of Human and Minority Rights
MLSW	Ministry of Labour and Social Welfare
MoP	Manuel of Procedures
MS	Management Structure
NAO SO	NAO Support Office
NAO	National Authorising Officer
NFD	National Fund Division
NIPAC	National IPA Coordinator
OG MNE	Official Gazette of Montenegro
OS	Operating Structure
SAP	System Analysis Programme
PIU	Project Implementation Units
RfF	Request for Funds
QAMR	Quarterly Action Monitoring Report
SOPEES	Sectoral Operational Programme on Employment, Education and Social policies

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

The Law on Audit of EU Funds prescribes that auditees 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) - (OG MNE, No 5/2015) and in Commission Implementing Regulation (EU) No 447/2014 on the specific rules for implementing Regulation (EU) No 231/2014 of the European Parliament and of the Council establishing an Instrument for Pre-accession Assistance (IPA II).

The Audit Authority is responsible for verifying:

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

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

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

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 on 1st January to 31st December 2023.

The audit activities performed in the audit period for the financial year were governed by the Audit Strategy 2023-2025.

Bearing in mind that during 2023 no expenditure was declared to EC; Audit Authority has not been in a position to perform audit of operations/samples of transactions regarding SOPEES. For the reference period the following audit activities were performed: ***System audits, Audit of the annual financial reports for the year 2023 and assessment of the Management declaration and Follow-up activities.***

As for the system audits the Audit Authority carried out:

- system audit of functioning of the Management, Control and Supervision System established for implementation of 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES) under IPA II. 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 Division (NFD):** Control activities
 - **Central Finance and Contracting Unit (CFCU) – Implementing Agency 1:** Control environment; Control activities
 - **Capital Projects Administration (CPA) - Implementing Agency 2:** Control environment; Control activities
 - **Ministry of Labour and Social Welfare (MLSW)– PIU:** Control activities
 - **Ministry of Education/Ministry of Education, Science and Innovation (MOE/MESI) – PIU:** Control activities; Monitoring of internal control framework
 - **Ministry of Human and Minority Rights (MHMR) – PIU:** Control activities; Monitoring of internal control framework

Also, the follow up of the findings and recommendations given in the course of previous audits was included in the system audit engagement.

- thematic system audit of the SAP IPA Information system established with regard to IPA II programmes: **Annual Action Programmes, Cross-border cooperation programmes and Multiannual programme SOPEES**, in the all bodies that are using the Information system SAP IPA: **National Fund Division (NFD) Central Finance and Contracting Unit (CFCU) and Capital Projects Administration (CPA)**¹

For more details about scope of system audits carried out, see sections 4.2 and 4.4.

In the context of audit of annual financial reports or statements/annual accounts at the end of February and beginning of March 2024, Audit Authority performed audit of the annual financial reports for the year 2023 and assessment of the Management declaration for the respective Programme.

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

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

¹ In accordance AA's Rulebook on internal organization and systematization of work post Department for audit of the programs - employment, social policies, education, promotion of gender equality and development of human capacities is in charge of performing IT audits.

<i>Sectoral Operational Programme for Employment, Education and Social policies 2015-2017</i>		
<i>Financing Agreement CRIS No 2015/037-895</i>		
Total Amount Contracted	EU contribution	14,701,226.95
	National contribution	2,594,334.14
	Other sources	1,088,861.51
Total Amount Decommitted on closure	EU contribution	0.00
	National contribution	0.00
	Other sources	0.00
Total Amount Disbursed	EU contribution	13,486,281.16
	National contribution	2,379,928.94
	Other sources	0.00
Total Costs Recognized	EU contribution	13,478,977.88
	National contribution	2,378,640.11
	Other sources	1,001,935.35
Total Open Pre-financing	EU contribution	7,303.28
	National contribution	1,288.81
	Other sources	0.00
Recovery context	Errors	0.00
	Irregularities	346,639.35
	Fraud	0.00
	No context	19,223.83
Bank Balances (EU contribution)	Total	1,533,058.81

Table 1

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. For more details about audit of accounts see sections 6.2 and 6.3.

As for the Follow up activities, the AA performed follow up of findings and recommendations given in the course of previous audits, as well as follow-up of the findings and recommendations issued by external audits, i.e. Moore Stephens' Audit on information security (ICT) and BDO's Audit on Internal Audit Capacities (IAC) in the context of Internal Control Framework under the Instrument for Pre-Accession (IPA II), presented in detail in section 7.1 of this Report.

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

The report covers Multi-annual action programme for Montenegro on Employment, Education and Social policies 2015-2017 (2015/037-895).

The main aim of the program is to provide the developed and cohesive society through provision of better conditions for raising levels of employability of citizens, improvement of quality of formal and non-formal education and lifelong learning, with social inclusion of persons in disadvantaged position and decrease of poverty risk. Determined funds are planned for implementation of 4 actions (priority axes):

- Action 1 – Improving the Labour Market and Increasing Employability
- Action 2 – Enhancing the Education System
- Action 3 – Improving Social Inclusion and
- Action 4 – Technical assistance.

Financing Agreement for the 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (2015/037-895) was signed on 12th July 2018.

Addendum of Financing Agreement between the Government of the Montenegro and the Commission of the European Communities concerning the 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies signed on 28th August 2020.

The total estimated cost of Programme is EUR 18.000.000,00 and the maximum Union contribution to this Programme is set at EUR 15.300.000,00.

The authorities responsible for implementation of the IPA II 2015-2017 Sectoral operational programme for Montenegro on Employment, Education and Social policies (SOPEES) are as follows:

- National IPA Coordinator of Montenegro (NIPAC),
- The National Authorizing Officer of Montenegro (NAO);
- Management Structure with two separate divisions, one for financial issues (Division for National Fund) and one for the support to the NAO (Division for System Supervision) and
- The Operating Structure (OS) composed of: NIPAC office, Implementing Agencies: Central Finance and Contracting Unit (CFCU) and Capital Projects Administration (CPA), Project Implementation Units (PIUs) of the line ministries: Ministry of Labour and Social Welfare (MLSW); Ministry of Education/Ministry of Education, Science and Innovation (MESI) and Ministry of Human and Minority Rights (MHMR).²

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

In order to prepare the AAAR and issue the Annual Audit opinion (hereinafter AAO), the Audit Authority has processed, summarised and assessed the findings and recommendations included in the reports on audits performed in accordance with Audit strategy 2023-2025 and carried out

² The new Government of Montenegro was established and new Decree on the organization and manner of work of the state administration was adopted on 31 October 2023 (OG 98/2023 from 31 October 2023). The mentioned Decree has changed the organization of the entire state administration and the organization of the PIUs within SOPEES. Former PIU in former Ministry of Education (MOE) and PIU in former Ministry of Science and Technological Development (MSTD) became PIU of newly established Ministry of Education, Science and Innovation (MESI).

a follow-up to assess the time proportional to implementation of audit recommendation.

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

With a view to drawing up an audit opinion, the Audit Authority assessed results of audit activities from the performed system audits of management, control and supervision system performed during 2023, results of follow up of the findings and recommendations given in the course of previous audits, results of audit of annual financials 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 the Annual Audit Activity Report and the Annual Audit Opinion.

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

2. SUBSTANTIAL CHANGES IN MANAGEMENT AND CONTROL SYSTEMS

The AA regularly monitored and gathered information on changes in the Management, Control and Supervision System (MCSS) and we reported on significant changes in MCSS in our AAARs.

In this AAAR we described significant changes occurred since last Annual Audit Activity Report, until March 2024.

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 until March 2024 the NAO/Deputy NAO informed the European Commission and Audit Authority about substantial and planned changes in the system by Letter No 09-908/23-285/1 from June 9th 2023 and Letter No: 908/24-95/1 from February 27th 2024.

➤ Organizational

With the establishment of the new Government of Montenegro, the Decree on the organisation and method of work of the state administration was adopted on October 31st 2023. The mentioned Decree has changed the organization of the entire state administration, reflecting on IPA units within reorganized ministries. Former PIU in former Ministry of Education (MOE) and PIU in former Ministry of Science and Technological Development (MSTD) became PIU of newly established Ministry of Education, Science and Innovation (MESI).

➤ Personal changes

National IPA Coordinator - NIPAK (Nipak office)

Mrs Milena Zizic, the State Secretary in the Ministry of European Affairs, left the position of the National IPA Coordinator on October 31st 2023.

Mr Bojan Božović, State Secretary in the Ministry of European Affairs, was designated to perform the function of the National IPA Coordinator, at Government session held on 11th January 2024.

Mr Bojan Vujović was appointed as Acting Director General of Directorate for Coordination of EU financial assistance/Deputy NIPAC, at the Government session held on 29th December 2023.

National Authorising Officer

At the Government session held on February 2nd 2024, Mrs Ana Raicevic, Secretary General in the Ministry of Finance, was dismissed as the Secretar General in the Ministry of Finance and NAO.

Mrs Milica Adžić, State Secretary in Ministry of Finance, was designated to perform the function of the NAO at the Government session held on February 8th 2024.

Head of Directorate for Management of pre-accession funds structure (former Directorate for Management Structure)- Deputy National Authorising Officer

At the Government session held on January 4th 2024 Ms Anja Amidžić was dismissed from the position of Director General within Directorate for Management Structure, Ministry of Finance.

Ms Anja Amidžić was appointed on the position of the Acting Director General within Directorate for Management of Pre-Accession funds structure (former Directorate for Management Structure) in Ministry of Finance on the Government session held on 11th January 2024.

Head of CFCU/IA

At the Government session held on December 14th 2023, Ms Jelena Davidović was dismissed from the position of Head of IA – CFCU.

Ms Sanja Bečanović was appointed as the Acting Director General – Head of of IA CFCU, Government session held on 11th January 2024,

Head of Sector for the realization of IPA project within IA CPA

The Government of Montenegro, at its session held on February 24th 2023, appointed Mr Naim Gjokaj as the Head of the Sector for the implementation of IPA projects, acting Deputy Director of CPA.

The term of office of Mr Naim Gjokaj, the Head of the Sector for the implementation of IPA projects, acting Deputy Director of CPA, was terminated on January 24th 2024. This position is currently vacant.

Head of PIU in the Ministry of Labour and Social Affaires

On 7th July 2023, Ms Granica Simičević was appointed on the position of the Head of Division for Programming and Implementation of EU Funds within MLSW.

SPO in PIU in the Ministry of Education

According to Substitution Plan Mr Marko Vukašinović is in charge of SPO in Ministry of Education, Science and Innovation.

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

The changes that occurred in MCSS in 2023 and until March 2024 have been communicated to the European Commission and the Audit Authority.

During 2023 and until March 2024 the NAO/Deputy NAO informed the European Commission and Audit Authority about substantial and planned changes in the system by Letter No 09-908/23-285/1 from June 9th 2023 and Letter No: 908/24-95/1 from February 27th 2024.

Personnal changes have been assessed by Audit Authority and we can confirm their compliance with Article 7 of Commission Implementing Regulation (EU) No 447/2014. These changes do not have an impact on the audit work.

3. CHANGES TO THE AUDIT STRATEGY

3.1. Details of any changes that have been made to the audit strategy or are proposed, and of the reasons for them

According to the Article 12 of Commission Implementing Regulation No 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 2015-2017 Sectoral operational programme for Montenegro on Employment, Education and Social policies (SOPEES) was prepared and submitted to the European Commission with a copy to the NAO in November 2022. The Audit Strategy was prepared on a tri-annual basis for period 2023-2025 following the model in Annex G of Montenegrin Framework Agreement and approved by Auditor General.

Until the moment of issuing this AAAR there were no any changes that have been made to the audit strategy or are proposed.

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

Not applicable.

4. SYSTEM AUDITS

4.1. Details of the bodies that have carried out system audits, including the audit authority itself

The audit body that has carried out system audits in 2023 is Audit Authority of Montenegro, Department for audit of the programs - employment, social policies, education, promotion of gender equality and development of human capacities. 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" No 14/12, 54/16, 37/17 and 70/17).

In accordance with the Law on Audit of EU Funds and the Audit Strategy 2023-2025 for the 2015-2017 Sectoral operational programme for Montenegro on Employment, Education and Social policies (SOPEES), the AA of Montenegro conducted an audit of the management, control and supervision system (hereinafter: MCSS) established in bodies being the part of the management and operating structure of the Programme: National Fund Division (NFD); CFCU (Implementing Agency), CPA (Implementing Agency) and PIUs: MLSW, MoE/MESI and MHMR.

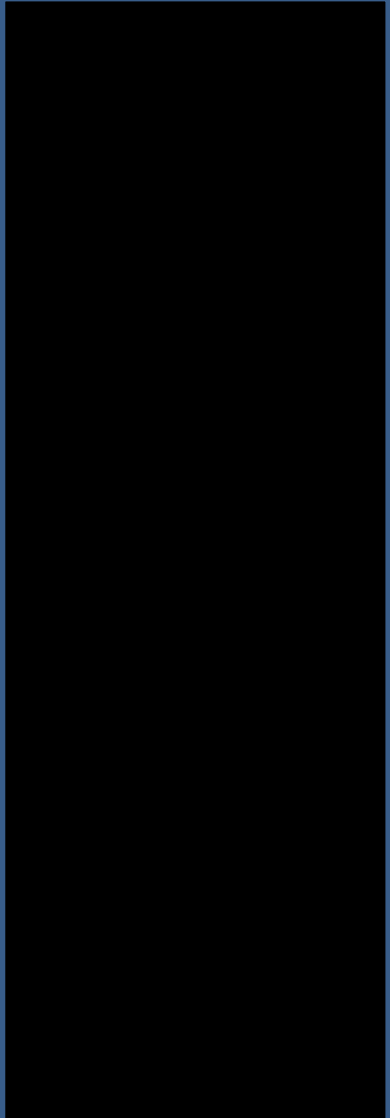
Also, AA conducted thematic system audit of the SAP IPA Information system established with regard to IPA II programmes: Annual Action Programmes, Cross-border cooperation programmes and Multiannual programme SOPEES, in the all bodies that are using the Information system SAP IPA: National Fund Division (NFD) Central Finance and Contracting Unit (CFCU) and Capital Projects Administration (CPA).

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4.2. Summary table of the audits carried out

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)
January – December 2023	C(2015) 9051 09/12/2015 CRIS decision No. 2015/037-895 Multi-annual action programme for Montenegro on Employment, Education and Social policies	Audit Authority of Montenegro	NFD IA CFCU IA CPA PIU MLSW PIU MOE/ MESI PIU MHMR	May – December 2023	NFD ICFR 3: 3a; 3c <u>IAs:</u>	1. Lack of employees in CFCU-IA CFCU	/	/	Open
					CFCU ICFR 1: 1a, 1c, 1d;1e ICFR 3:3a; 3c	2. Non-eligible Invoice based purchase- IA CFCU/DMS-NFD	/	1,278.00€ (Eu part 1,086.30€; NC 191,70€)	Open
					CPA ICFR 1: 1a;1e ICFR 3: 3a; 3c <u>PIUs:</u>	3. Absence of prescribed deadlines for providing of Read and approved visa - All PIUs	/	/	Open
					MLSW ICFR 3: 3a; 3c MOE/MESI ICFR 3: 3a; 3c ICFR 5: 5a; 5b	4. Inadequate internal organization of Finance and Accounting Unit- IA CPA	/	/	Open
					MHMR ICFR 3: 3a; 3c ICFR 5:5a; 5b	5. Non-compliance of steps order prescribed in procedure – PIU MLSW; IA CFCU	/	/	Open

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<p>Annual Country Action Programmes for Montenegro:</p> <p>-CAP 2014 – C(2014) 9387 -CAP 2016 – C(2016)8226 CAP 2017 – C(2017/040- 216;2017/03 9-816) -CAP 2018 (No (CRIS) IPA/2018/04 0-218 and IPA/2018-040-220) -CAP 2020 (No (CRIS) IPA/2020/04 2-142 and IPA/2020-042-145)</p> <p>IPA II 2014-2020 CrossBorder Cooperation Programmes:</p> <p>MontenegroAlbania (C (2014) 9352) CRIS No : 2014/037-593 2015/038-158 2016/038-174 2017/038-175 2018/041-468 2019/041-470 2020/041-471</p> <p>MontenegroKosovo (C</p>	<p>Audit Authority of Montenegro</p>	<p>NFD IA CFCU IA CPA</p>	<p>September - November 2023</p>	<p>SAP IPA Information System for IPA II programmes³</p> <p>NFD IA CFCU IA CPA</p>		/	/	Closed within contradictory procedure
						/	/	Open
						/	/	Closed within contradictory procedure
						/	/	Closed within contradictory procedure
						/	/	Open
						/	/	Open
						/	/	Closed within contradictory procedure
						/	/	Closed within contradictory procedure

³ horizontal thematic audit

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(2014) 9307) CRIS No: 2014/037-592 2015/038-161 2016/038-182 2017/038-183 2018/041-472 2019/041-474 2020/041-475 <i>Multi-annual action programme for Montenegro on Employment, Education and Social policies</i> C(2015) 9051 09/12/2015 CRIS decision No. 2015/037-895								
						/	/	Closed within contradictory procedure
							/	/

Table 2

✓ ***System audit of functioning of the Management, Control and Supervision System established for implementation of 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES) under IPA II:***

Based on level of implementation of 2015-2017 SOPEES, available AA's resources and all collected information and documentation as well as the results of risk assessment, the following bodies being part of the management, control and supervision system and key requirements were covered by the system audit:

1) National Fund Division (NFD):

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

2) Central Finance and Contracting Unit (CFCU) – Implementing Agency 1:

- 1(a) Ethics and integrity policies;
- 1(c) Establishment of structures, reporting lines, and authorities and responsibilities;
- 1(d) Staff planning, recruitment, retention, training and appraisal;
- 1(e) Accountability for allocated tasks and responsibilities;
- 3(a) Selection and development of control activities;
- 3(c) Policies and procedures related to control activities.

3) Capital Projects Administration - Implementing Agency 2:

- 1(a) Ethics and integrity policies;
- 1(e) Accountability for allocated tasks and responsibilities;
- 3(a) Selection and development of control activities;
- 3(c) Policies and procedures related to control activities.

4) Ministry of Labour and Social Welfare (MLSW)– PIU:

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

5) Ministry of Education/Ministry of Education, Science and Innovation – PIU:

- 3(a) Selection and development of control activities;
- 3(c) Policies and procedures related to control activities;
- 5(a) On-going and specific monitoring;
- 5(b) Assessment, recording and communication of internal control deficiencies.

6) Ministry of Human and Minority Rights – PIU:

- 3(a) Selection and development of control activities;
- 3(c) Policies and procedures related to control activities;
- 5(a) On-going and specific monitoring;
- 5(b) Assessment, recording and communication of internal control deficiencies.

Additionally, during this audit engagement we performed follow up of implementation of recommendation related to open findings from previous audits, which is constituent part of Final system audit report.

The system audit encompassed the period from January-December 2023. The Final Audit Report was issued and submitted to National Authorising Officer on 29th January 2024.

✓ **Thematic system audit of the SAP IPA Information system established with regard to IPA II programmes:**

Based on all collected information and performed risk assessment during planning of audit engagement all bodies that are using the Information system SAP IPA were covered by this audit engagement:

- National Fund Division (NFD)
- Central Finance and Contracting Unit (IA CFCU) and
- Capital Projects Administration (IA CPA).

The Final Audit Report was issued and submitted to National Authorising Officer (NAO) on 22nd December 2023.

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

Considering the requirements of the IPA regulations and Framework Agreement, the AA used a risk-based audit approach for system audits.

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 ICFRs which will be covered by system audit. Additionally, in order to define the sub-criteria within each ICFR which will be encompassed by the appropriate audit activities in particular body, we performed risk assessment at the level of each requirement during system audit engagement planning.

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

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

During the preparation of Audit Strategy, risks were identified and taken into account at the programme/structure and authorities' level while during system audit engagement planning phase risk assessment was performed at the level of each key requirement. Specific risk factors have been assessed for each body and ICFR. 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 had been ranked according to the total score.

Basis of results of performed risk assessment, the following bodies and key requirements/ICFRs were covered by system audit:

- **National Fund Division (NFD):** Control Activities;
- **CFCU/IA:** Control Environment; Control Activities;
- **CPA/IA:** Control Environment; Control Activities;
- **MLSW/PIU:** Control Activities;
- **MoE-MESI/PIU:** Control Activities, Monitoring of internal control framework and
- **MHMR/PIU:** Control Activities, Monitoring of internal control framework.

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

Therefore, based on the audit strategy, understanding of audit environment and performed risk assessment, bodies and requirements defined in the Annex B of the FWA which were covered during the system are given in table bellow.

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ANNEX B INTERNAL CONTROL FRAMEWORK		Bodies concerned in system audit for financial year 2023					
	Standard list of requirements defined in the Annex B of the FWA	NFD	CFCU	CPA	MLSW	MoE	MHMR
1.	Control environment		x	x			
a)	Ethics and integrity policies		x	x			
b)	Supervision by management of tasks delegated to subordinates						
c)	Establishment of structures, reporting lines, and authorities and responsibilities		x				
d)	Staff planning, recruitment, retention, training and appraisal		x				
e)	Accountability for allocated tasks and responsibilities		x	x			
3.	Control activities	x	x	x	x	x	x
a)	Selection and development of control activities	x	x	x	x	x	x
b)	Security control activities*	x	x	x			
c)	Policies and procedures related to control activities	x	x	x	x	x	x
5.	Monitoring of internal control framework					x	x
a)	On-going and specific monitoring					x	x
b)	Assessment, recording and communication of internal control deficiencies					x	x

* audit of the SAP IPA Information system

Table 3

During the preparation of Audit Strategy based on professional judgment, thematic **IT audit** was planned. For the purpose of detailed defining the scope of this audit, during audit engagement planning we have considered the following:

- SAP IPA system is Project Information System which should be further upgraded or serve as a basis for development of Management Information System which will be used for the purpose of management of IPA III and further Structural and Cohesion funds.
- Separate audit of SAP-IPA IS by AA has never been performed before.

Therefore, based on all collected information and above-mentioned facts, all bodies that are using the Information system SAP IPA were covered by this audit engagement:

- National Fund Division,
- Central Finance and Contracting Unit and
- Capital Projects Administration.

4.4. Details of the audits carried out

4.4.1. Description of the principal findings and the conclusions drawn from the audit work for the MCSs and their functioning, including the sufficiency of management checks, accreditation procedures and audit trail, adequate separation of functions and compliance with Union requirements and policies

4.4.1.1. System audit - Multi-annual action programme for Montenegro on Employment, Education and Social policies 2015-2017 (2015/037-895).

After the system audits have been completed, we conducted a quantitative and qualitative analysis of the results of the implemented activities. We evaluated the assessment criteria for each ICFR and afterwards drawn a conclusion by ICFR. Based upon the results of the categorisation of each ICFR, we reached conclusion by body and then made the overall conclusion on the MCSS of the programme.

When assessing the system, the categories defined in the Guidelines on a common methodology for assessing the management and control systems in the Member States have been applied and the evaluation of the MCSS is expressed within one of the four categories as follows:

- Works well. No or only minor improvement(s) are needed (1);
- Works, but some improvement(s) are needed (2);
- Works partially; substantial improvement(s) are needed (3);
- Essentially does not work (4).

In the following table (Table 3) are presented results of evaluation for all audited ICFR/assessment criteria in each body.

ICFR \ AUDITEE	NFD	CFCU (IA)	CPA (IA)	MLSW (PIU)	MoE/MESI (PIU)	MHMR (PIU)	TOTAL
1(a) Ethics and integrity policies	/	1	1	/	/	/	1
1(c) Establishment of structures, reporting lines, and authorities and responsibilities	/	2	/	/	/	/	2
1 (d) Staff planning, recruitment, retention, training and appraisal	/	2	/	/	/	/	2
1 (e) Accountability for allocated tasks and responsibilities	/	1	1	/	/	/	1
3(a) Selection and development of control activities	2	2	2	2	2	2	2
3(c) Policies and procedures related to control activities	1	1	1	2	2	2	2
5(a) On-going and specific monitoring	/	/	/	/	2	1	2
5(b) Assessment, recording and communication of internal control deficiencies	/	/	/	/	1	1	1
TOTAL:	2	2	2	2	2	2	

Table 4

Further below we outline the description of the most important findings identified and conclusions reached through audit as well as recommendations provided for correcting the findings.

Principal findings identified in the particular ICFR are as follows:

Lack of employees in CFCU

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

Level of Priority: Major

Body/-ies concerned by the finding: IA CFCU/NAO

Implementation deadline: As soon as possible

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

- Envisaged number of work posts in the Rulebook on internal organization and systematization of the Ministry of Finance adopted by Government of the Montenegro on 28/7/2022 was 40. At the session held on 7/12/2023 Government of the Montenegro adopted new Rulebook on internal organization and systematization of the Ministry of Finance, by which envisaged number of work posts is raised to 41 including head of CFCU. By Overview of Staff from December 2023, actual number of employees in CFCU is 29. One of 29 employees (Financial manager) is temporarily assigned to the Revenue and Customs Administration and 5 employees is on maternity leave, which means that currently in CFCU 23 employees (56%) are engaged.
- At the Government session held on 14/12/2023, Ms Jelena Davidović was dismissed from the position of Head of IA – CFCU.
- Head of Financial Division left CFCU on 29/12/2023.

Recommendation:

We recommend to CFCU to recruit necessary numbers of staff in accordance with the newly adopted Rulebook.

Non-eligible Invoice based purchase

INTERNAL CONTROL FRAMEWORK:

3 (a) Selection and development of control activities

(ii) Rules for each type of procurement and grant calls ensuring appropriate legal framework for all such commitment processes

(iii) Procedures, including checklists, for each step of procurement and grant calls (e.g. technical specifications, evaluation committees, reporting of exceptions etc.) ensuring each member of staff is clear as to their responsibilities in these areas.

Level of Priority: Major

Body/-is concerned by the finding: Implementing Agency – CFCU and DMS

Implementation deadline: AFR for 2023/Final declaration of expenditure

During the audit we determined that CFCU purchased 2 computers (4M5F3EA HP 290 G3 SFF Win 11 PRO/13-10105/8GB/256GB SSD/DVDRW/KB+Mouse ASUS VP247HAE LED 23,6" Monitor) for the Directorate for Management Structure (DMS) by **Invoice based purchase**.

Performed purchase **is** not in line with approved Operation Identification Sheet: *Supporting Operating Structure in the management and implementation of the Sectoral Operational Programme (SOPEES)* (Ref. Ares (2020)4729705 - 10/09/2020), under Action 4: Technical Assistance.

Namely, Annex XIII of Financial Agreement (OIS) prescribes Invoice based purchase aiming to **purchase office furniture** for the Directorate for Management Structure (DMS) in the Ministry of Finance, in order to equip their additional conference room and thus ensure adequately furnished space

for holding meetings as follows:

Supply Contract (Invoiced based purchase)– Purchase of office furniture for the Directorate for Management Structure (DMS)			
	EU funding in €	Co- financing in €	Total budget in €
2020	1.098,75	193,90	1.292,65
Total	1.098,75	193,90	1.292,65

Bearing in mind the above mentioned, we can conclude that supply of IT equipment instead of furniture, is not eligible for financing from EU Funds.

Recommendation:

We recommend to CFCU to perform procurement exclusively in accordance with approved Operational Identification Sheets.

The expenditure in the overall amount of 1,278.00€ (Eu part 1,086.30€; NC 191,70€) is considered ineligible for being financed from the Programme.

Absence of prescribed deadlines for providing of Read and approved visa

INTERNAL CONTROL FRAMEWORK:

3 (a) Selection and development of control activities

3 (c) Policies and procedures related to control activities

Level of Priority: Intermediate

Body/-ies concerned by the finding: all PIUs in IPA perspective II/IBPM in IPA perspective III

Implementation deadline: I Q 2024

The tasks of the SPOs/PIUs with regard to payments to the contractors/grant beneficiaries inter alia cover the issuing of “Read and approved” visa for reports under service contracts, FWC and grant contracts.

Auditors reviewed documentation related to the issuing of Read and Approved Visa for reports under contracts in sample and noticed that time needed for providing of Read and Approved Visa ranges from one to nine months (CFCU/MNE/119 – 9 months). For the reason of waiting for R&A Visa to be approved by PIU, for the final payment for contracts CFCU/MNE/132 and CFCU/MNE/122 IA CFCU suspended time-limit for payment.

Reviewing MoP of PIU, we noticed that in the MoP of PIUs deadlines related to the providing of Read and approved visa to the IA are not prescribed.

Also, we consider that waiting for providing of R&A Visa cannot be reason for suspension of payment.

Bearing in mind the above mentioned, we concluded that the absence of prescribed deadlines as well as too long time for providing of Read&Approved Visa by PIUs can lead to lack of respect of deadlines prescribed in the PRAG rules (General Conditions of the Contracts) related to the execution of the payments to the grant beneficiaries. Accordingly, delays in payment procedure cause risk of additional costs. Namely, the contracting authority shall pay default interest, if it pays the contractor after the time-limit.

Recommendation:

We recommend prescribing deadlines in Manual of Procedures of PIUs (in IPA III perspective MoP of IBPM) for providing of Read and Approved visa, in order to ensure that provisions of contracts signed as well as provisions prescribed by PRAG, General conditions, which are related to payment procedures and payment deadlines, are fully respected in the future.

Inadequate internal organization of Finance and Accounting Unit

3 (a) Selection and development of control activities

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

3a (xiii) Segregation of duties ensuring that different tasks in the life of the same operation are allocated to different staff, to ensure automatic cross-checking controls

Level of Priority: Intermediate

Body/-ies concerned by the finding: IA CPA

Implementation deadline: As soon as possible

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

- In the Rulebook on internal organization and systematization of the CPA envisaged number of work post in the Finance and Accounting Unit is three: Head of Unit, Financial controller and accountant. Having in mind overall responsibilities of CPA as IA related to IPA perspective II as well as IBFM to IPA perspective III, we consider that envisaged number of work post for Financial controller is not enough, which can have a great impact on the quality and continuity of business operations, e.g. adequate substitution policy cannot be ensured.
- Additionally, pursuant to Exception from the standard procedure exclusion of financial controller 2 was introduced in the financial department of the CPA. Deputy of NAO approved this exception in March 2022. According to the MoP procedures, in case of exceptions due to procedure failure/incompleteness, the procedure for modification of the MOP should apply. In urgent and duly justified cases, when there is not enough time for the MOP modification and the activity/process needs to be approved without any delay (e.g. deadline etc.), the procedure for requesting and recording exceptions should be followed and then the relevant part of the MOP shall be modified accordingly.

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

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

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

Recommendation:

We recommend to the CPA:

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

Non-compliance of the order of steps prescribed in the procedure

3 (a) Selection and development of control activities

Level of Priority: Intermediate

Body/-ies concerned by the finding: PIU/MLSW and IA CFCU

Implementation deadline: I Q 2024

During the audit, we determined non-compliance of the order of steps prescribed in the procedure as

follows:

- in MLSW we noticed that Annex 4 - Checklists for administrative check of the reports, for the purpose of issuing “Read and approved” visa, were signed by SPO after the R&A visa had already been issued for Final narrative reports under the following contracts:
 - o contract CFCU-MNE-119 “Read and Approved” visa was issued on 24.05.2023. and Check list was signed by a person in the capacity of the SPO on 25.05.2023;
 - o contract CFCU-MNE-112 “Read and Approved” visa was issued on 20.07.2022. and Check list was signed by a person in the capacity of the SPO on 21.07.2022.

Above mentioned is not in accordance with MoP 2.0\Part II\PIUs \ Chapter IV Contract implementation in which stated:

.. After beneficiary institution(s) approval, narrative reports are approved by SPOs by providing “Read and approved” visa on the reports to the IA. ***Prior to approval of the reports the SPO/PIU shall filled-in and signed relevant checklist.***

- In CFCU we determined that Notification letter to the Contractor/Grant beneficiary was sent after the payment had already been executed for the payments under contracts:
 - o contract CFCU-MNE-112: payment was executed on 17.11.2022. and Notification letter to the contractor sent on 09.12.2022.
 - o contract CFCU-MNE-119 payment was executed 03.08.2023. and Notification letter to the contractor sent on 04.08.2023.

Above mentioned is not in accordance with MoP 2.0\Part III\As Financing management Table 2: steps

15. Prepares Notification letter to the Contractor/Grant beneficiary

16. Execution of payment.

Those failures in controls do not have financial implications. However, reputation of IA can be jeopardised when contractors/grant beneficiary after execution of payments receives Notification letter with information that payment will be made.

Recommendation:

We recommend to the CFCU and PIU MLSLW to improve controls in order to ensure respecting the order of steps prescribed in the procedure.

4.4.1.2. Thematic audit: Audit of SAP IPA Information System for IPA II programmes

On the basis decision during the preparation of the Audit Strategy 2023 – 2025, for the purpose of detailed defining the scope of this audit, during audit engagement planning we have considered the following:

- SAP IPA system is Project Information System which should be further upgraded or serve as a basis for development of Management Information System which will be used for the purpose of management of IPA III and further Structural and Cohesion funds.
- Separate audit of SAP-IPA IS by AA has never been performed before.

Therefore, based on all collected information and above-mentioned facts, all bodies that are using the Information system SAP IPA were covered by this audit engagement:

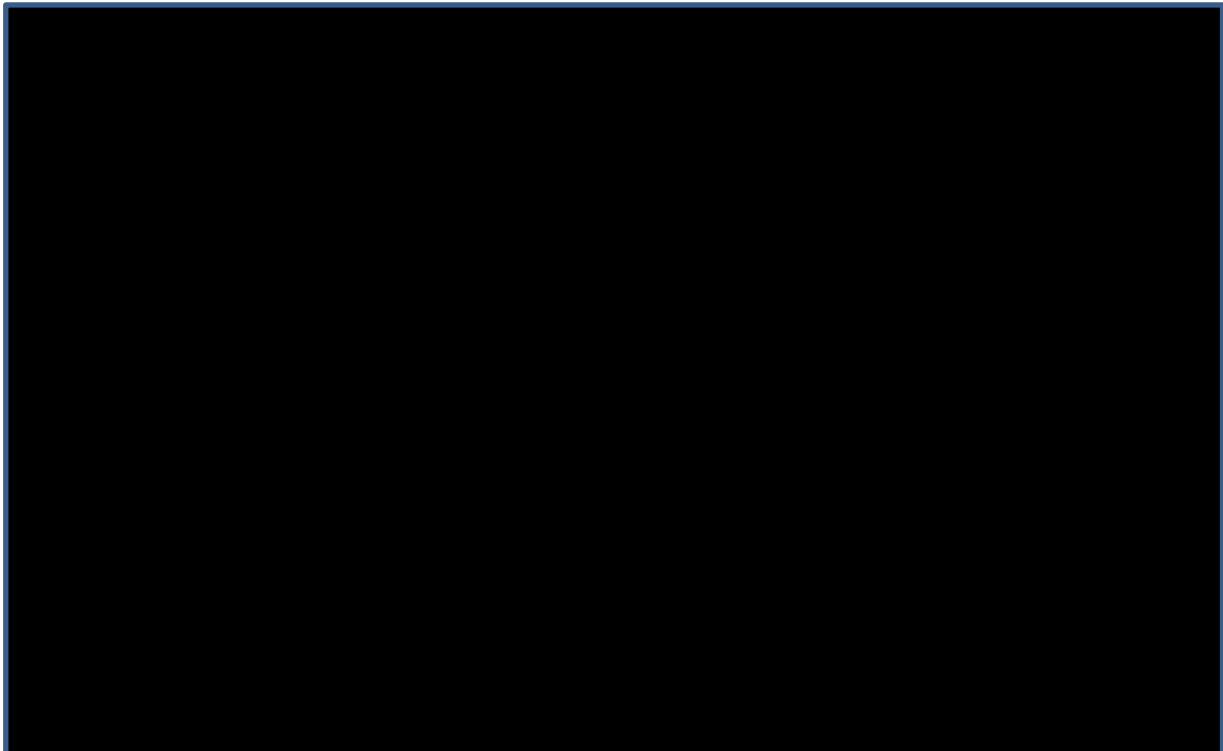
- ***National Fund Division,***
- ***Central Finance and Contracting Unit and***
- ***Capital Projects Administration.***

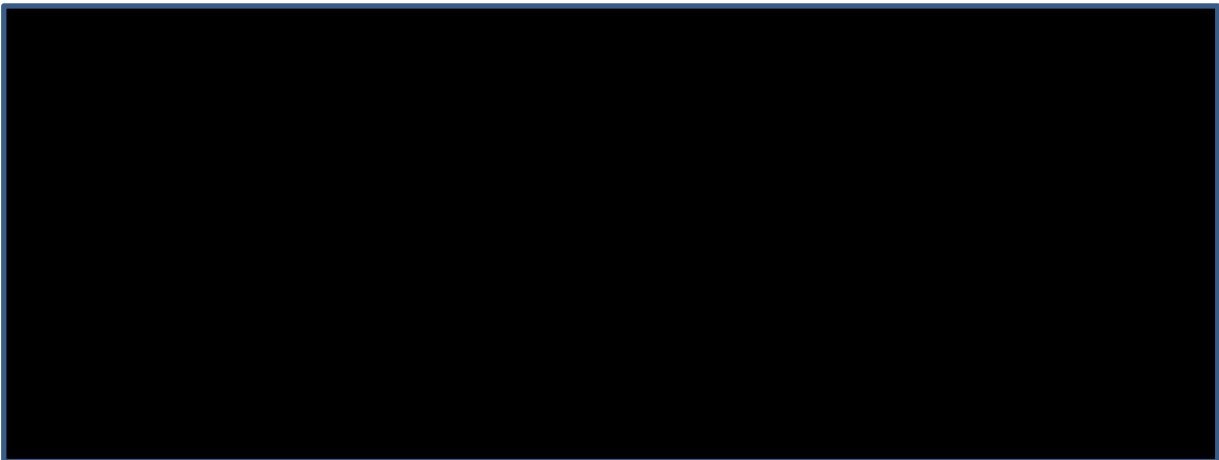
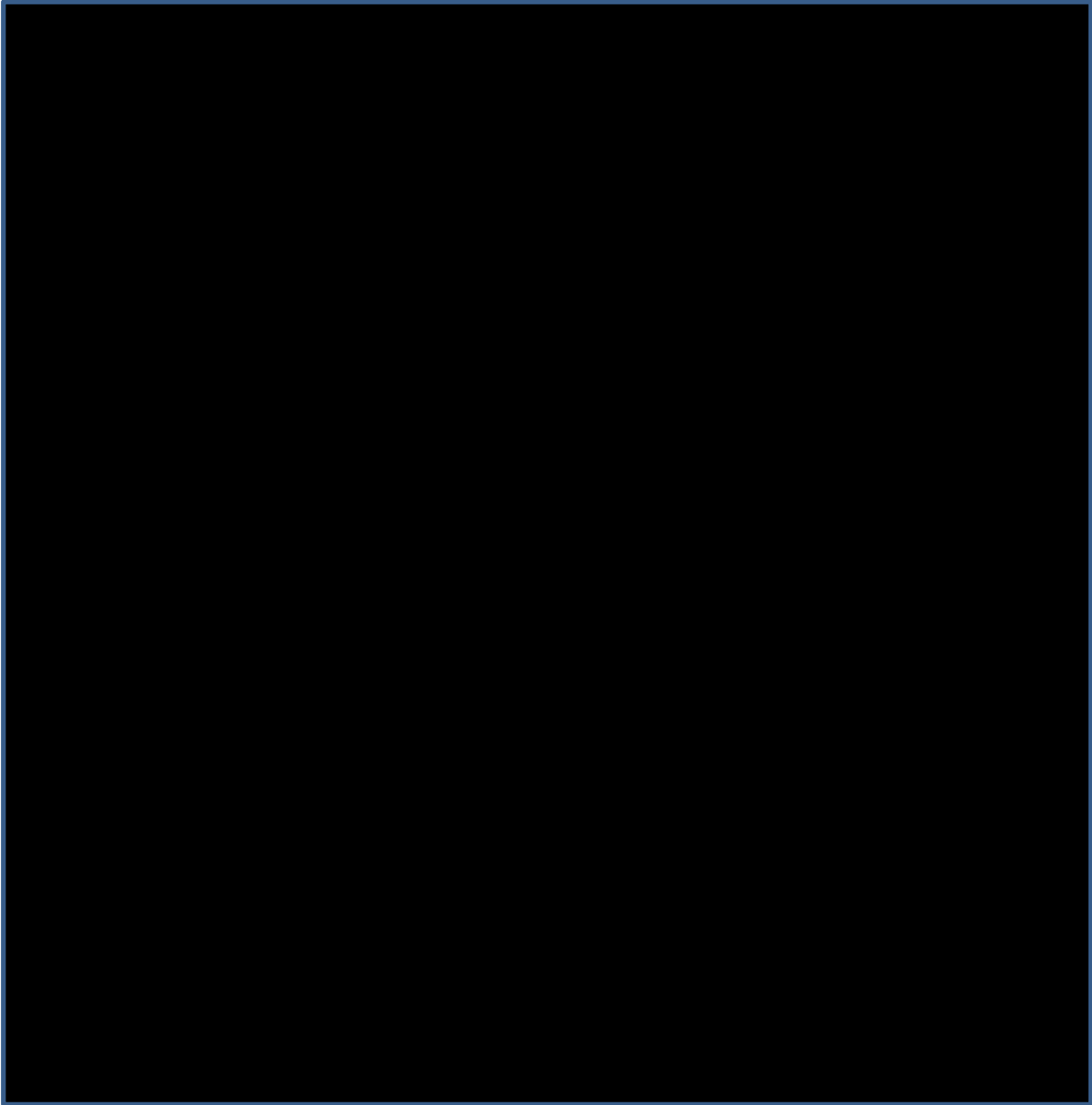
After the audit of SAP IPA Information System for IPA II programmes system audits have been completed, we conducted an analysis of the results of the implemented activities and conclusion related to compliance with the ICFR 3 (b) in Annex B of the Framework Agreement is given.

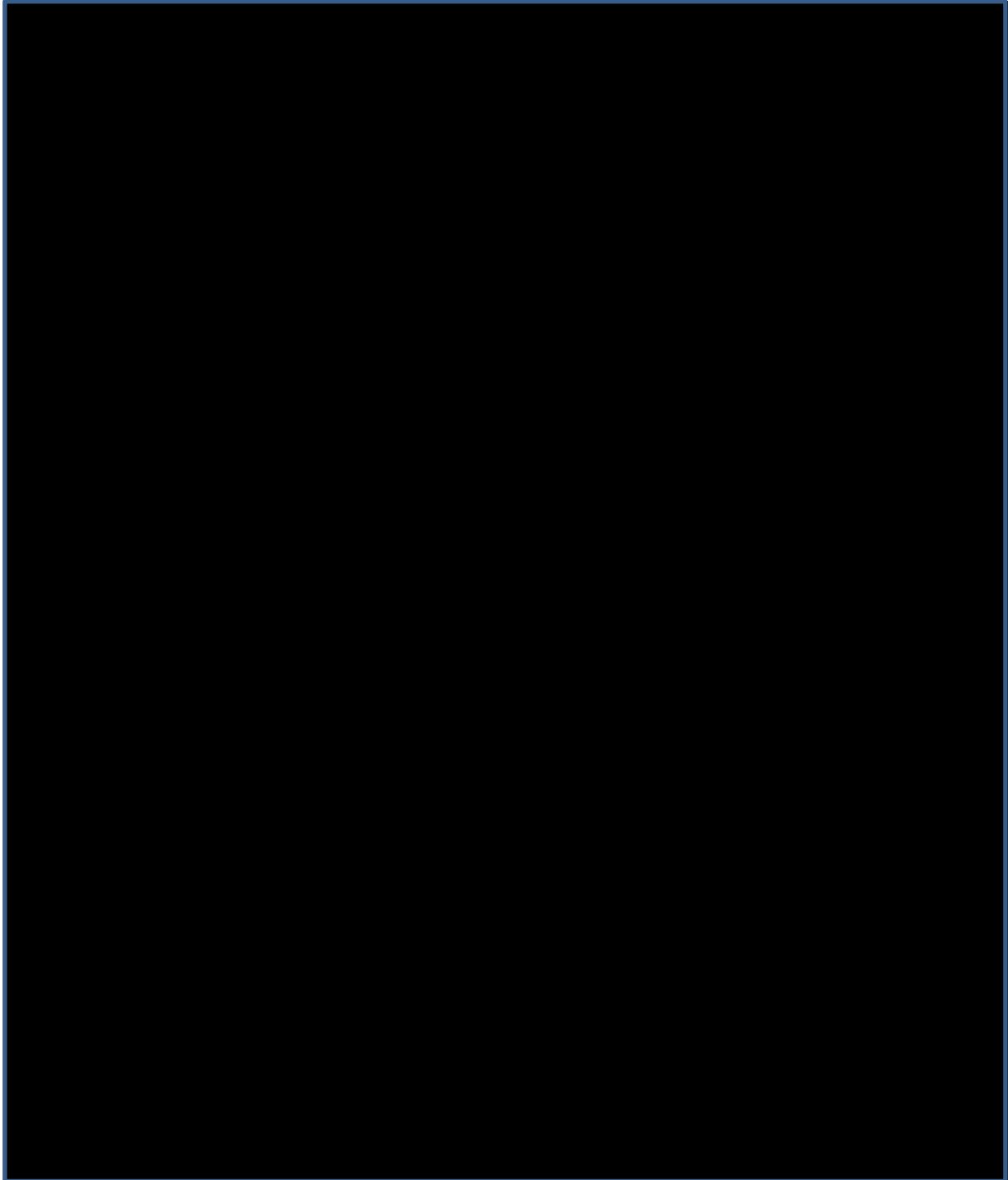
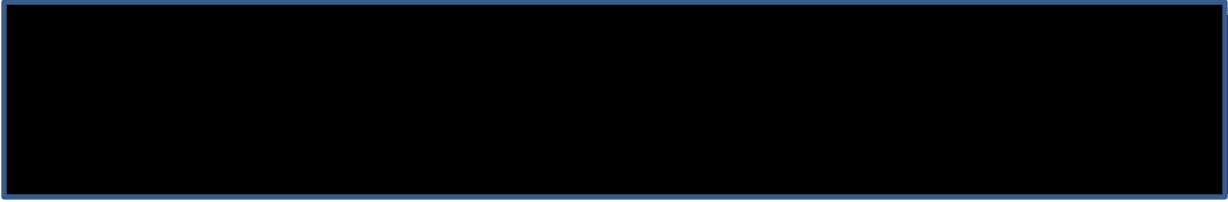
7 out of 12 total findings are closed until contradictory procedures (from the moment of issuing the draft report until the preparation of the final report).

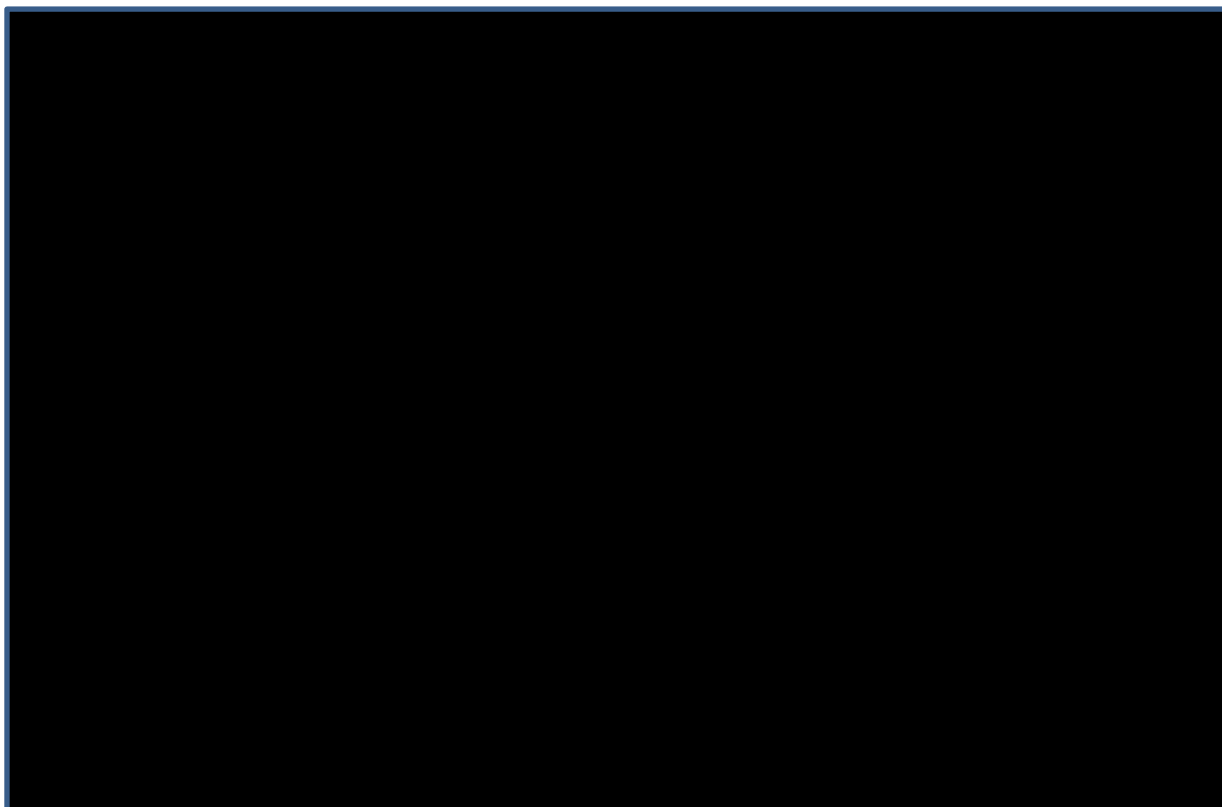
Further below we outline the description of the most important findings identified and conclusions reached through audit as well as recommendations provided for correcting the findings.

Principal findings identified and still open in Final Report are as follows:









4.4.2. Details of whether any problems identified were considered to be of a systemic character

During the conducted system audits in 2023, no findings were found with systemic character.

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

Not applicable.

4.6. Level of assurance obtained following the system audits (low/average/high) and justification

On the basis of work performed, we gained reasonable assurance that the MCSS established for implementation of the IPA II 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES) „*Works, but some improvements are needed* “.

Overall conclusion for MCSS, based on the results of this year system and professional judgement, as well as the results of follow up of previous years findings is presented in table below, per each body:

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IPA BODY	Works well. No or only minor improvement(s) are needed	Works, but some improvement(s) are needed	Works partially; substantial improvement(s) are needed	Essentially does not work
NFD		X		
CFCU		X		
CPA		X		
MLSW		X		
MoE/MESI		X		
MHMR		X		
Overall conclusion	Works, but some improvements are needed			

Table 5

Bearing in mind aforementioned, we consider that level of assurance is **average**.

Also, based on the *Audit of SAP IPA Information System for IPA II programmes* performed, the auditor’s conclusion is that the SAP is a valuable asset because of the integral component of SAP’s standard functionality, the system provides valuable user activity tracking capabilities, enabling precise monitoring of each individual’s actions and with clear roles enables segregations of duties. It is crucial to emphasize the high security standards inherent in SAP, which include robust data encryption to safeguard the integrity of sensitive information.

With a quick reaction, the NAO closed most of the findings from the moment of issuing the draft report until the preparation of the final report.

Based on the submitted evidence, we can conclude that security has been significantly improved and that the *system works, but that improvements are needed*, the availability of all outputs/reports from system would significantly enhance work efficiency, reduce preparation time and elevate the overall reliability of the reports.

Considering the aforementioned challenges and the obligation to develop a Management Information System (MIS) in the next programming period, we recommend the establishment of robust procedures and analyses. These measures should address whether reports can function correctly, be adapted to EU requests, and assess whether it is more advantageous to further develop SAP or to create an entirely new application.

Despite these challenges, we believe that addressing these shortcomings with appropriate improvement measures and optimizing SAP usage will lead to added value.

5. AUDITS OF SAMPLES OF TRANSACTIONS

Not applicable.

Costs declared as “recognised” in the Request for Funds (including Declaration of Expenditure) submitted by the NAO to the Commission constitute the population for audits of operations/sample of transactions in order to establish AA’s opinion on legality and regularity of the expenditure.

Bearing in mind that in the previous period *NAO did not declare any expenditure to EC*, i.e. NAO did not submit RfFs (with DoE) to the EC, AA was not in a position to perform audit of operations/samples of transactions.

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

Not applicable.

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

Not applicable.

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.

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

Not applicable.

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**

Not applicable.

- 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)**

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Audit of accounts was conducted by audit team of Audit Authority, Department for audit of the programmes – employment, social policies, education, promotion of gender equality and development of human capacities.

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

For the purpose of expressing the Annual Audit Opinion, in order to conclude that the Annual Financial Report gives a true and fair view, the Audit Authority shall verify that all elements required by models stipulated in Annex IV of the Financing Agreements concerning the 2015-2017 SOPEES, i.e. cumulative amounts presented for the programme, are correctly included in the accounts and correspond to the supporting accounting records maintained by relevant IPA bodies, i.e. in the National Fund Division (NFD) and Implementing Agencies - Directorate for Finance and Contracting of the EU Assistance Funds (CFCU) and Capital Projects Administration (CPA).

In line with Article 59(2) of the Framework Agreement concluded between the Government of Montenegro and the European Commission on the arrangements for implementation of Union financial assistance to Montenegro under the Instrument for Pre-accession assistance (IPA II), Deputy NAO submitted Annual Financial Reports for 2023 to EC on 14th February 2024.

This audit of accounts covered Annual Financial Report for 2023 for the 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies.

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

Sectoral Operational Programme for Employment, Education and Social policies 2015-2017

Financing Agreement CRIS No 2015/037-895

Programme Budget:

- **EU contribution: 15.299.999,98 EUR**
- **National contribution: 2.700.000,03 EUR**
- **Other sources: 0,00 EUR**

Local Contract Activities															
Total Amount Contracted			Total Amount Committed on closure	Total Amount Disbursed			Total Costs Recognized			Total Open Pre-financing			Recovery context		Bank Balances (EU contrib)
4			6	8			10			12			15	17	18
EU contribution	National contribution	Other sources	Total	EU contribution	National contrib.	Other sources	EU contribution	National contrib.	Other sources	EU contribution	National contrib.	Other sources	Irregularities	No context	Total
14,701,226.95	2,594,334.14	1,088,861.51	0,00	13,486,281.16	2,379,928.94	0.00	13,478,977.88	2,378,640.11	1,001,935.35	7,303.28	1,288.81	0.00	346,639.35	19,223.83	1,533,058.81

Table 6

The Audit Authority, on the basis of the Annual Financial Report for 2023 as well as all required documentation provided to it by the NFD and IAs (CFCU and CPA) verified whether:

- 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 NFD and IAs;
- the total amounts submitted in the Annual Financial Report correspond to the amounts in the electronic database for each contract, in relation to the contract reference, contract value including any amendments, contract signature date, contract implementation start and end date, amount total paid by contract, amount related to total pre-financing paid and pre-financing cleared, total costs recognized, amount of recoveries under the contract;
- the bank accounts statement for each programme balances corresponds to the year-end balances in the accounting systems of the NFD;
- reconciliation of the accounting records and cash flow statements of the NFD and CFCU and CPA and
- total amounts of recoveries correspond to supporting documents for recoveries.

In order to achieve the overall objective, the Audit Authority considered the results from the System audits (Report No 3011-1-06-263/4 from 29th January 2024), carried out in National Fund Division (NFD) and Implementing Agencies (CFCU and CPA).

During 2023 NAO did not submit a request for funds including a “Declaration of expenditure”. Therefore, Audit Authority has not been in a position to perform audit of operations/transactions regarding SOPEES.

However, we performed additional audit work in accordance with DG NEAR IPA - Guidance for Audit Authorities on audits of operations, opinions and reports (Ref. Ares (2020)6052313-28/10/2020; NEAR.R.3 2020-001).

Within System Audit carried out in 2023, we audited ICFR 3 - Control activities on the basis of sample of transactions/payments within SOPEES.

In total, 35 payments were executed by IAs, out of which 33 by CFCU and 2 by CPA. During the mentioned System audit we performed checks on 9 payments (25,7%) and also went through procedures for costs recognition.

Apart from the above mentioned, during 2023 IA - CFCU issued Written approvals for Final Reports and recognised costs (clearing of pre-financing paid in terms of recognition of cost without payments) in 4 cases.

We performed additional tests for all items (100%) in terms of cost recognized in 2023 included in financial reports/accounts to verify elements not tested previously.

Also, we performed follow up findings and recommendation given in previous audit of accounts. Results are given in table No 7.

All testing related to Audit of accounts has been documented in the Checklists and working papers made in accordance with Audit Authority Manual of procedures.

We have identified and documented the following audit findings:

Finding No 1: Financial correction determined by Audit Authority

Annual Financial Report for 2023

Level of Priority: Major

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

During the audit we have determined that financial correction determined within System audit (Final report No 3011-1-06-263/4 from 29.01.2024 - Finding No 4.2) in the total amount of 1,278.00€ (Eu part 1,086.30€ and NC 191,70€) was not included in Annual Financial Report for 2023 for 2015-2017 SOPEES.

Recommendation:

We recommend preparation and presentation of data in Annual Financial Reports including all financial correction determined by Audit Authority.

Finding No 2: Incorrectly presented “Total Amount Disbursed”

Annual Financial Report for 2023, Total Amount Disbursed

Level of Priority: Intermediate

Body/-ies concerned by the finding: NAO/NFD and CFCU/IA

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

Analysing the relevant registers and documentation in IAs and NFD related to recoveries until the end of 2023, as well as accounting records and analytical card of bank account we determined as follows:

Contract	Issued Recovery orders	Recovered until 31.12.2023	Amount still pending to be recovered
CFCU/MNE/086	177,521.89*	19,223.81	158,298.08
CFCU/MNE/183	14,685.14	0.00	14,685.14
CFCU/MNE/131	1,379.77	0.00	1,379.77
CFCU/MNE/199	104,945.60	0.00	104,945.60
CFCU/MNE/111	47,672.02	0.00	47,672.02
CFCU/MNE120	434.92	434.92	0.00
Total	346,639.34	19,658.73	326,980.61

*see also finding No 4

We concluded that item No 8 -Total Amount Disbursed in AFR for 2023 is presented in the amount less than in accounting records of CFCU (in CPA there is no recoveries).

Difference is related to the requested recovery funds. Namely, all amounts of requested recoveries were deducted from Total amount disbursed. We consider that from total amount disbursed should be deducted only amounts of recovered funds.

Recommendation:

In order to ensure providing complete and accurate annual financial reports, we recommend that Total Amount Disbursed should be calculated: Total amount paid - recoveries made (recovered amount).

Finding No 3: Incorrectly presented “Total Open pre-financing”

Annual Financial Report for 2023, item No. 12

Level of Priority: Intermediate

Body/-ies concerned by the finding: NAO/NFD/CPA

According to the Annual Financial Report for 2023 for 2015-2017 SOPEES, Total Open Pre-financing were reported as follows:

- EU contribution: 7,303.28 EUR
- National contribution: 1,288.81 EUR
- Other sources: 0,00 EUR

We performed checks of documentation and accounting records regarding the total open pre-financing amount. Analysing the relevant registers and documentation we determined that this amount refers to service contract No: Service (PWA/MNE/IPAII/SOPEES/SER/01-22/1) „Development of the main design and supervision of the works “.

Starting from the fact that as per Article 2(2) of the Special conditions of Financial Agreement for SOPEES eligibility period expired on 31 December 2023, we consider that total amount of pre-financing amount in Annual Financing Reports for 2023 should be 0.

Recommendation:

We recommend to NF/CPA that at the end of eligibility period total amount of pre-financing amount should be cleared as cost recognized or as recovery.

Finding No 4: Incorrectly presented Recovery context

Annual Financial Report for 2023, Recovery context

Level of Priority: Intermediate

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

According to the Annual Financial Report for 2023 for 2015-2017 SOPEES, Recovery context were presented as follows:

Recovery context			
Errors	Irregularities	Fraud	No context
14	15	16	17
0.00	346,639.35	0.00	19,223.83

During the audit we dermined that amount of recoveries presented in the column 15 and 17 of recovery context are not presented well.

The amount of pending recoveries should not have been included in recovery context. See table within finding No 2.

Additionally, during the audit we noticed that for contract CFCU/MNE/086 (Direct award Support programme for self-employment), CFCU issued Recovery order on December 29th 2023 (on the basis of Written approval of the Final Report), which determined obligation for contractor EAM to recover funds in total amount of 177,521.90€. However, amount of 19,223.83€ was already recovered by Beneficiaries of small grants during 2021 and 2022, which was not taken into account during preparation of Recovery order. The amount in accounting records of CFCU and NFD, register of Recoveries of NFD and CFCU and Debtor ledger of CFCU is not correct.

Recommendation:

- The total amount presented in field “Recovery context” of AFR1 should contain only recovered amounts.
- During preparation of Recovery orders to contractor CFCU should take into account real state of requested and already recovered amounts.

❖ **Follow up of previous year audit of accounts**

During the audit of accounts, auditors performed follow up of implementation of recommendation related to open findings given in audit of accounts for 2022. The result of performed follow up is that: out of 2, issued findings and recommendation, 1 recommendation is implemented and 1 recommendation is partially implemented.

Results of follow up are presented in table below:

List of findings from the Report on the Audit of account No: 3011-3-06-182/2 from 10 th March, 2023																			
No	Findings	Recommendation	Status in March 2024																
1.	<p>Annual Financial Report for 2022, item No. 4 Level of Priority: Intermediate Body/-ies concerned by the finding: NAO/NF According to the Annual Financial Report for 2022 for 2015-2017 SOPEES, which NAO submitted to EC on 15th February 2023, total contracted amount is as follows:</p> <ul style="list-style-type: none"> ➤ EU contribution: 14.951.578,43 EUR; ➤ National contribution: 2.638.513,81 EUR; ➤ Other sources: 1.125.018,81 EUR. <p>Based on documentation obtained, desk checks performed and on-the-spot checks in Implementing Agencies, we identified discrepancies between data presented in AFR for 2022 (item No 4) and data from relevant registers and accounting entries in IAs. Namely, examining the Contract Registers in CFCU and CPA as well as relevant accounting records, we determined that total contracted amount by the end of 2022 was the following:</p> <table border="1"> <thead> <tr> <th>Implementing Agency</th> <th>Total contracted amount EU contribution</th> <th>Total contracted amount National contribution</th> <th>Total contracted amount Other sources</th> </tr> </thead> <tbody> <tr> <td>CFCU</td> <td>14.240.048,32</td> <td>2.512.949,67</td> <td>1.107.970,53</td> </tr> <tr> <td>CPA</td> <td>677.688,95</td> <td>119.592,17</td> <td>0,00</td> </tr> <tr> <td>TOTAL</td> <td>14.917.737,27</td> <td>2.632.541,84</td> <td>1.107.970.53</td> </tr> </tbody> </table> <p>Table 2 Therefore, differences between data presented in AFR for 2022 and data determined through testing and examination of relevant documentation in IAs are</p> <ul style="list-style-type: none"> ➤ EU contribution: 33.841,16 EUR; ➤ National contribution: 5.971,97 EUR; ➤ Other sources: 17.047,74 EUR. <p>We found that differences regarding EU, National contribution and Other sources are related to grant contract CFCU/MNE/111. Contracted amount had been decreased for 56.860,87 EUR (EU 33.841,16 + 5.971,97 Nat + 17.047,74 Other) by signing Addendum No 1. This Addendum was signed on 18/04/2022 when it entered into force</p>	Implementing Agency	Total contracted amount EU contribution	Total contracted amount National contribution	Total contracted amount Other sources	CFCU	14.240.048,32	2.512.949,67	1.107.970,53	CPA	677.688,95	119.592,17	0,00	TOTAL	14.917.737,27	2.632.541,84	1.107.970.53	<p>Recommendation: We recommend preparation and presentation data of total contracted amount in Annual Financial Reports on the basis of accounting records of Implementing Agencies/CFCU for the reference period for which Annual Financial Report is issued.</p>	<p>Status: Implemented By insight into AFR 1 for 2023 we concluded that our recommendation is implemented. The finding is closed.</p>
Implementing Agency	Total contracted amount EU contribution	Total contracted amount National contribution	Total contracted amount Other sources																
CFCU	14.240.048,32	2.512.949,67	1.107.970,53																
CPA	677.688,95	119.592,17	0,00																
TOTAL	14.917.737,27	2.632.541,84	1.107.970.53																

2.	<p>Finding No: 2 Incorrectly presented “Total Amount Disbursed” Annual Financial Report for 2022, item No. 8 Level of Priority: Intermediate Body/ies concerned by the finding: NAO/NF and CFCU/IA</p> <p>According to the Annual Financial Report for 2022 for 2015-2017 SOPEES, Total Amount Disbursed, Total Costs Recognised, Total Open Pre-financing and Recovery context were reported as follows:</p> <p>Total Amount Disbursed:</p> <ul style="list-style-type: none"> ➤ EU contribution: 12.757.445,58 EUR*; ➤ National contribution: 2.251.313,94 EUR¹ ➤ Other sources: 0,00 EUR. <p>Total Costs Recognised:</p> <ul style="list-style-type: none"> ➤ EU contribution: 8.462.828,57 EUR; ➤ National contribution: 1.493.440,29 EUR; ➤ Other sources: 521.878,21 EUR. <p>Total Open Pre-financing:</p> <ul style="list-style-type: none"> ➤ EU contribution: 4.294.617,01EUR; ➤ National contribution: 757.873,63 EUR; ➤ Other sources: 0,00 EUR. <p>Recovery context:</p> <ul style="list-style-type: none"> ➤ Errors: 0,00 EUR; ➤ Irregularities: 0,00 EUR; ➤ Fraud: 0,00 EUR; ➤ No context: 19.658,75 EUR** <p>We performed checks of documentation and accounting records regarding, inter alia, the total amount disbursed and amount of recoveries which were proceed in the previous period ending by 31/12/2022. Analysing the relevant registers and documentation in IAS and NF as well as accounting records and analytical card from bank account, we determined that item No 8 Total Amount Disbursed in AFR for 2022 is not correctly presented. Total Amount Disbursed should be decreased for the amount of recovered funds – 19.223,83 EUR, and consequently amount of Total Cost Recognised or Total Open Pre-financing were not properly reported. EU contribution was presented more for 16.340,26 € than it should be while National contribution was presented more for 2.883,57 €. According to aforementioned, we calculated Total Amount Disbursed:</p> <ul style="list-style-type: none"> ➤ EU contribution: 12.741,105,33 EUR; ➤ National contribution: 2.248.430,37 EUR. <p>This discrepancy between data reported in AFR for 2022 and data resulting from our calculation is related to the amount of recoveries. Namely, by comparing the AFR and the accounting records, we concluded that the recovery was well presented in the AFR for 2022 but it was not properly treated in accounting records of CFCU</p> <p><small>*Under disbursed amount-EU contribution, total payments made has been decreased for withdrawn funds (at the end of 2020 it was in amount of 1.497,96 € and at the end of 2021 it was in amount of 211.803,93 €). This specificity is related to direct grant contract (contract No. CFCU/MNE/086) and it's beneficiary Employment Agency of Montenegro. Namely, funds not spent by the end of fiscal year within the state budget are lost and due to that, for payments made under direct grant contract withdrawal of EU part of funds from state budget to relevant IPA account for SOPEES programme is done at the end of 2020 and 2021, in order to prevent losing of funds within state budget. These funds may be transferred to grant beneficiary (EAM) again.</small></p> <p><small>¹ Under disbursed amount-National contribution, total payments made has been decreased for withdrawn funds (at the end of 2020 it was in amount of 264,34 € and at the end of 2021 it was in amount of 37.377,16 €). Also, see previous explanation</small></p> <p><small>¹ Under Recovery context is recovery for contract CFCU/MNE/120 which is initiated and is still pending in the amount of 434,92 EUR</small></p> <p><small>**¹ Under Recovery context is recovery for contract CFCU/MNE/120 which is initiated and is still pending in the amount of 434,92 EUR</small></p>	<p>Recommendation:</p> <p>We recommend to decrease Total Amount Disbursed in AFR for 2023 for the amount of recovered funds until the end of 2023 in order to ensure providing complete and accurate annual financial reports. We recommend to CFCU to respect all prescribed accounting procedures related to making complete and proper accounting entries regarding recoveries.</p>	<p>Status: Partially implemented</p> <p>Having in mind that we determined that recoveries related to contract CFCU/MNE/086 is not adequately treated in accounting system of CFCU and NFD, we consider that the finding remain open.</p>
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Table 7

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 follow-up to the results of the audit on transactions/operations

Audit conclusion is based on the analysis of procedures, information, data, documents, reports, adequately documented check lists and working papers related to the Audit of Accounts.

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 for amounts Open pre-financing, Recovery context and Total Disbursement Amount.

We highlight the most important reasons that had an effect on making conclusion on the completeness, accuracy and veracity of the Annual Financial Report or statements for 2023:

- ✓ We can confirm that total amounts of Programme Budget, Total Amount De-committed on closure, Total amount Contracted and Bank Balances (EU contribution) correspond to the amounts specified in the verified documents collected from NFD and IAs;
- ✓ During the follow up performed within audit of accounts we determined that financial correction related to findings from Audit of operations (Report No: 3011-2-06-181, date: 6th March 2023) were properly treated. Amount of ineligible expenditure was excluded from cost recognized;
- ✓ during contradictory procedure (System audit Report No: 3011-1-06-263/4) auditees CFCU and NFD did not accept AA's finding and recommendation related to ineligible cost in the amount 1,086.30€ (Eu part) and 191,70€ (NC) and those amounts are not excluded from AFR for 2023. Therefore, in the item 10 in AFR - Total cost recognized amounts are presented as follows:
 - "EU contribution" - 13,478,977.88€, which should have been decreased by the amount of 1,086,00€, representing 0,008% of reported cost recognized amount.
 - "National contribution" - 2,378,640.11, which should have been decreased by the amount of 191.00€, representing 0,008% of reported cost recognized amount.

These costs have not been declared to EC through Declaration of expenditure (within Request for Funds);

- ✓ due to NFD's misunderstanding of the context of certain columns in AFR (Columns 8a-8b (Total Amount Disbursed) and Columns 14-17 (Recovery context), those items are not well presented in the AFR (please see Section 6.2 findings No 2 and No 4) and do not correspond to the amounts specified in the verified documents IAs;
- ✓ the amount of 7,303.28€ (Eu part) and 1,288.81€ (NC) is entered in AFR's column Open pre-financing, although eligibility period expired on 31 December 2023.

Starting from the fact that columns *total amount disbursed*, *total open prefinancing and recovery context* did not have an impact on the cost recognized presented in AFR (which will be declared to EC), we consider that it is appropriate to conclude that the financial statements give a true and fair view. Also, the audit work carried out does not put in doubt the assertions made in the management declaration.

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.

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

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

At the end of December 2023 as part of System audit engagement and in March 2024 as part of Audit of accounts, the Audit Authority performed follow-up of the open findings and recommendations given in the course of previous audits.

Also, we performed follow-up of the findings and recommendations issued by external audits, i.e. Moore Stephens' Audit on information security (ICT) and BDO's Audit on Internal Audit Capacities (IAC) in the context of Internal Control Framework under the Instrument for Pre-Accession (IPA II).

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

- **Part I:** *Follow-up of findings issued within the system audits*
- **Part II:** *Follow-up of findings issued within the audits of operations*
- **Part III:** *Follow-up of the findings and recommendations issued by external audits, i.e. Moore Stephens' Audit on information security (ICT)*
- **Part IV:** *Follow up of findings and recommendation issued by BDO's Audit on Internal Audit Capacities (IAC) in the context of Internal Control Framework under the Instrument for Pre-Accession (IPA II)*

ANNUAL AUDIT ACTIVITY REPORT

Part I: Follow-up of findings issued within the system audits			
List of findings from the Report on System Audit No. 3011-1-06-19/2 (February, 2020)			
No	Finding	Recommendation	Status in December 2023
1.	<p>IT policy – Back up of data and trainings (Details: See section 4.6) Level of Priority: Intermediate Body/-ies concerned by the finding: All IPA bodies According to the Manual of Procedures (V2.0), chapter IT policy, section Storage of data and back-up, inter alia the following is prescribed:</p> <ul style="list-style-type: none"> • All important data is backed up on a daily basis; • The IPA Body staff shall always store data in the file/applications server (servers); • The User Coordinator shall ensure that backup information is maintained according to backup policy; • The IT Coordinator shall ensure that all key servers and systems have documented backup procedures. These procedures must be detailed and be essentially a step-by-step guide to how the task is completed for the various servers and data are backed up; • All storage media should be labelled clearly and stored in a secured, lockable fireproof safe or cabinet; • The IT Coordinator shall ensure that there are detailed restore procedures in place for each major system backed up. These procedures must be detailed and be essentially a step-by-step guide to how the task is completed for the various servers and data are restored in the event of a problem occurring e.g. a server/disk crash or lost/corrupted data. <p>On the basis of performed on-the-spot checks and conducted interviews, we determined that archiving and backup of data is not performed in accordance with prescribed procedures. There is no properly defined back up storage. So, there is a risk of loss of data in case of error in information systems in which information is destroyed by failures or negligence in storage, transmission, or processing. To mitigate the risk of losing data, the staff from IPA bodies use external hard disks and USB disks for archiving data from their computers. They perform this periodically. Previously mentioned external hard disks are stored in the premises of each IPA body. However, archiving data in this way is not secure enough and is not in accordance with prescribed procedures for back up and archiving data which are described in MoP, chapter IT policy.</p> <p>Also, we have concluded that employees from IPA bodies did not have enough trainings related to IT security policy. In the period under review insignificant number of employees attended few trainings related to cyber security and computer data protection. Bearing in mind the importance of IT security, using file servers, having adequate and secure data storage, employees from IPA bodies should have more trainings with regard to this policy.</p>	<p>We recommend providing adequate archiving and back-up of data according to the procedures described in MoP Chapter IT policy in order to prevent data loss or ensure restoring of lost data.</p> <p>We recommend initiating and providing trainings related to IT Security policy.</p>	<p>Status: Partially implemented New implementation deadline: IIQ 2024</p> <p>This finding was partially implemented through the previous follow-up. Bearing in mind that Action Plan ISO 27002 is outdated and it will be analyzed 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>
2.	Inadequate and incomplete monitoring and reporting at sectoral and action level	We recommend to NIPAC	Status: Partially implemented

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<p>(Details: See section 4.7) Level of Priority: Intermediate Body/-ies concerned by the finding: NIPAC Office According to IPA II Implementing Regulation No 447/2014, Article 4, the National IPA Coordinator (NIPAC) shall be the main counterpart of the European Commission for the overall process of strategic planning, coordination of programming, monitoring of implementation, evaluation and reporting of IPA II assistance. Therefore, in line with the IPA II IR, the responsibility for the monitoring of implementation belongs to the NIPAC, who has to set up an adequate monitoring framework under the OS. “The main role in reporting at programme level is with NIPAC office. Annual Report on Implementation of IPA II Assistance shall be drawn up under the coordination of NIPAC office with input from the bodies of the operating structures and related monitoring reports. When it comes to Monitoring and Reporting at Sectoral Level, the Semi-annual Action Monitoring Reports are prepared by NIPAC Office based on the inputs of the quarterly reports. Monitoring and Reporting at Action Level includes preparation of Quarterly Action Monitoring Reports which shall be drawn up under the coordination of NIPAC office and prepared by PIUs/Lead SPOs. QAMRs shall be submitted to the NIPAC office, quarterly during the year, with the following cut-off dates: 31st March, 30th June, 30th September and 31st December. QAMR shall be prepared and submitted to NIPAC office 10 working days after the cut-off dates. For proper coordination of the reporting requirements, NIPAC Office shall lead the process of preparing of all monitoring reports. In order to ensure timely preparation and high quality of reports, the NIPAC office shall:</p> <ul style="list-style-type: none"> • Sets a time-schedule for preparing the annual reports; • Issue guidelines and instructions to SPOs/PIUs regarding their input for annual reports at Action level; • Ensures for the quality control of the input, submitted by the SPOs/PIUs; • Monitor the time-schedule for preparation of annual reports, approval and submission.” <p>Based on documentation obtained, desk checks performed and interviews conducted we determined that monitoring activities regarding IPA II 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES) is not at satisfied level and is not in accordance with prescribed procedures. Namely, reviewing documentation related to preparation of Annual Report on Implementation of IPA II Assistance in 2018 we determined that this report was issued in time but was not based on information deriving from Semi-Annual Sector Monitoring Report. Actually, during the on the spot check at the NIPAC Office we were not presented any SASMR because this type of monitoring document has not been prepared and issued in the previous period. Due to this fact we consider that monitoring and reporting at sectoral level has not been implemented in line with prescribed procedures. Also, we determined that Monitoring and Reporting at Action Level was not at the satisfied level in the previous period. On the basis of enclosed documentation, we determined that only</p>	<p>Office carrying out proper coordination and taking all relevant and necessary activities, under its responsibility, in order to ensure that Monitoring and Reporting at Sectoral and Action Level are satisfactory and in accordance with prescribed procedures and IPA regulations. This way the potential risk of preparing and issuing Annual Report on Implementation of IPA II assistance on the basis of inadequate and incomplete information about SOPEES will be mitigated.</p>	<p>New implementation deadline: 15th February 2024 After reviewing the response of auditee as well as submitted evidence, we concluded that status of recommendation given during previous follow-up, remains the same. Some improvements are made, however having in mind that all PIUs are not submitting their QMR timely, we consider the finding open. Also, having in mind that this finding is indirectly addressed to all PIUs and that there are findings: Incomplete monitoring and reporting at action level and Deficiencies in reporting on programme level from the Report on System Audit No. 3011-1-06-10 (January 2023), further implementation of this recommendations will be monitored through this finding and recommendation, after submitting of Annual Implementation Report for 2023. In this context, we except from NIPAC Office to submit to AA AIR for 2023 including all supporting documents.</p>
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	<p>one PIU (MLSW) respected procedures and responsibility of drawing up Quarterly Action Monitoring Reports (QAMR) for each period of implementation while one PIU (MoS) partially fulfilled this obligation. The rest of PIUs did not respect obligation preparing and submitting QAMRs to NIPAC Office. Therefore, we consider that monitoring and reporting at action level has not been implemented in line with procedures.</p> <p>Therefore, monitoring and reporting at the sector and action level were not satisfactory in the previous period, i.e. were not carried out in line with prescribed procedures. In our opinion this may lead to potential risk that Annual Report on Implementation of IPA II assistance could be prepared on the basis of inadequate and incomplete information about SOPEES.</p>		
List of findings from the Report on System Audit No. 3011-1-06-10 (January 2023)			
No	Finding	Recommendation	Status in December 2023
1	<p>Delays in the payment procedure (Details: See section 4.1) Level of Priority: Intermediate Body/-ies concerned by the finding: Implementing Agency - CFCU</p> <p>According to the PRAG (Version 2020.0), Annex II General conditions applicable to European Union-financed grant contracts for external actions Article 15 — Payment and interest on late payment following is stipulated:</p> <p>“ 15.1. The contracting authority must pay the grant to the coordinator following one of the payment procedures below, as set out in Article 4 of the special conditions. <u>Option 2: Actions with an implementation period of more than 12 months and grant of more than EUR100 000</u></p> <p>(i) an initial pre-financing payment of 100 % (ii) further pre-financing payments of 100 % of the part of the estimated budget financed by the contracting authority for the following reporting period (excluding not authorised contingencies):</p> <p>....</p> <p>- within 60 days following the end of the reporting period, the coordinator shall present an interim report or, if unable to do so, it shall inform the contracting authority of the reasons and provide a summary of progress of the action,</p> <p>.....</p> <p>15.4. The initial pre-financing payment shall be made within 30 days of receipt of the payment request by the contracting authority. Further pre-financing payments and payments of the balance shall be made within 60 days of receipt of the payment request by the contracting authority...</p> <p>15.5. Without prejudice to Article 12, the time-limits for payments may be suspended by notifying the coordinator... The suspension of the time-limits for payments starts when the above notification is sent to the coordinator. The time-limit starts running again on the date on which a correctly formulated request for payment is recorded. The coordinator shall provide any requested information, clarification or document within 30 days of the request. If, notwithstanding the information, clarification or document provided by the coordinator, the payment request is still inadmissible, or if the award procedure or the implementation of the grant proves to have been subject to irregularities, fraud, or breach of obligations, then the</p>	<p>We recommend improving controls within the payment procedure in order to ensure that provisions of contracts signed as well as provisions prescribed by PRAG, General conditions, and which are related to payment procedures, payment deadlines and suspension of the period for payments, are fully respected.</p>	<p>Status: Not implemented</p> <p>From the reply of the auditee it is evident that IA/CFCU did not take into consideration the final conclusion of AA related to this finding given in Final Report on System Audit No. 3011-1-06-10 (January 2023).</p> <p>During system audit performed during 2023 we determined that this recommendation was not implemented.</p> <p>Namely, analyzing the documentation related to contracts from the sample we found certain deficiencies within the whole payment procedure (from sending request for payment to the payment execution).</p> <p>E.g. Request for final payment for grant contract CFCU/MNE/129 supported with narrative and financial report, dated on 10/6/2022, was received by CFCU on 15/6/2022. Time-limit for payment was suspended as follows: 21/9/2022-28/9/2022; 28/9/2022-20/10/2022; 20/10/2022-28/11/2022; 5/12/2022-23/2/2023. OTSC was performed on 20/12/2022. Suspensions were related to the issuing of the Written approval - RFAI and OTSV. Finally, written approval was issued on 13/4/2023 and payment was executed on 4/5/2023.</p> <p>Also, in connection with the next finding, we determined that PIU MESI (former MSTD) did not attend OTSC, which is not in accordance with the provision of MoP of PIUs, where it is stated that for grant contracts, PIU shall attend at least one on-the-</p>

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contracting may suspend payments, and in the cases foreseen in Article 12, terminate accordingly this contract...“

Analysing the documentation related to sample of 8 contracts, we found certain deficiencies within the whole payment procedure (from sending request for payment to the payment execution) for grant contracts CFCU/MNE/109, CFCU/MNE/110 and CFCU/MNE/130. We determined significant difference between dates of sending requests for payment by coordinator/grant beneficiary and dates of receipts of RfPs by IA - CFCU, violation of time-limits for providing information on requests for clarifications and consequently delays in payment execution.

Namely, request for further pre-financing for grant contract CFCU/MNE/109, supported with narrative and financial interim report, dated on 10/04/2021, was received by CFCU on 13/05/2021. Time-limit for payment was suspended due to requests for additional information and clarification and it lasted from 04/06/2021 until 09/12/2021. During this period CFCU sent 4 requests for additional clarifications and received requested information with significant delays which means that grant beneficiary didn't provide information within 30 days. Finally, written approval was issued on 15/12/2021 and payment was executed on 27/12/2021.

Request for further pre-financing for grant contract CFCU/MNE/110 (supported with narrative and financial interim report), dated on 20/04/2021, was received by CFCU on 18/05/2021. Period for payment was suspended by notifying beneficiary about requested information and suspension lasted until 14/10/2021. Requested information hasn't been provided within prescribed deadline. Furthermore, we determined certain inconsistencies between data in *Checklist for Grant contracts Interim payments* and data in *Checklist for Grant contracts: Financial reports* and which are related to dates/periods of suspension. Written approval was issued on 21/10/2021 and payment was executed on 22/11/2021.

Also, we determined that request for payment of the balance for grant contract CFCU/MNE/130, dated on 05/11/2021, was received by the CFCU on 08/12/2021. Request for payment was supported with detailed breakdown of expenditure and narrative and financial final report. Time-limit for payment was suspended on 02/12/2021 and grant beneficiary provided clarification on 19/01/2022 so the total number of suspension days was 48. Payment was executed on 03/03/2022.

Summarized data is presented in following table:

No of grant contract	Date of Request for Payment	Date of receipt of Request for Payment	Start date of suspension period	End date of suspension period	Adjusted deadline for payment execution	Date of payment
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spot verification.

Request for final payment for grant contract CFCU/MNE/122 supported with narrative and financial report, dated on 1/6/2022, was submitted in CFCU on 7/6/2022. Written approval was issued on 23/11/2023 and payment executed on 30/11/2023. In the meantime, there were 6 suspensions. e.g Suspension in the period from 6/4/2023 to 4/10/2023 was for reason waiting for the additional documentation from the beneficiary requested on OTSC which was performed on 3/4/2023.

We would like to point out again that Article 15.5 of the General conditions for grant contracts stipulates that in case of suspension of payments any requested information, clarification or document shall be provided within 30 days of the request.

Therefore, this finding remains open.

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	CFCU/MNE/109	10/04/2021	13/05/2021	04/06/2021 26/06/2021 21/07/2021 05/10/2021	26/06/2021 14/09/2021 05/10/2021 09/12/2021	15/02/2022	27/12/2021		
	CFCU/MNE/110	20/04/2021	18/05/2021	18/05/2021 01/09/2021 01/10/2021	20/08/2021 20/09/2021 14/10/2021	20/12/2022	22/11/2021		
	CFCU/MNE/130	05/11/2021	8/12/2021	02/12/2021	19/01/2022	25/04/2022	03/03/2022		
2	<p>Non-compliance with procedures related to OTSV (Details: See section 4.2)</p> <p>Level of Priority: Intermediate Body/-ies concerned by the finding: CFCU/IA and MSTD (PIU)</p> <p>According to the Manual of Procedures, chapter Contract implementation and OTSV, section 4 On the spot verifications, the following is stipulated: “On-the-spot verifications are important elements of internal control as a monitoring tool to ensure that the implementation of contracts and the financial procedures set out within IA are in accordance with IPA II and national rules and follow the principle of sound financial management. The aim of the on-the-spot verification is to identify whether the contracts which are financed from IPA II Action Programmes were:</p> <ul style="list-style-type: none"> • implemented properly in accordance with the contract conditions (for completed projects) • if the implementation of the contracts is ongoing according to the documents which are provided to the IA, <p>i.e. on-the-spot verification is performed for the already implemented contracts as well as for the contracts under the implementation. These verifications shall cover administrative, financial, technical and physical aspects of operations, as appropriate, and will check compliance with rules. During the on-the-spot verifications the comparison is done of the contracted, actual and reported from the point of view of scope, quantity, time schedule, etc... The on-the-spot verification must be performed by at least two IA staff members (Notes: In case of work contracts, OTSV shall be performed by the Supervisor and Contract Manager. In case of service contracts for supervision of works, OTSV shall be performed by two IA Contract Managers. In case of all other types of contracts, including service contracts, OTSV shall be performed by the IA Contract Manager and Financial Controller). Representatives of the Contractor/Grant beneficiary participate in the on-the-spot verification. Representatives of the responsible PIU and the responsible beneficiary institution(s) are always invited to take part in the on-the-spot verifications. However, for service contracts, representatives of the responsible PIU and beneficiary institution(s) are not obliged to attend on-the-spot</p>							<p>We recommend to perform on-the-spot verifications in line with prescribed procedures regarding participation of representatives of the responsible PIU.</p> <p>We recommend that on-the-spot verifications are performed with purpose of gathering information that are needed for issuing written approval and checking if the implementation of the contracts is ongoing according to the documents which are provided to the CFCU.</p>	<p>Status: Not implemented</p> <p>From the reply of the auditee it is evident that IA/CFCU and PIU (former MSTD, now MESI) did not take into consideration the final conclusion of AA related to this finding given in Final Report on System Audit No. 3011-1-06-10 (January 2023).</p> <p>See previous answer in part related to the <u>CFCU/MNE/129</u>.</p>

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	<p>verifications; for grant contracts, they shall attend at least one on-the-spot verification, while for supply and work contracts, representatives of the responsible PIU and beneficiary institution(s) shall always attend the announced on-the-spot verification.”</p> <p>Grant contract CFCU/MNE/130 (M1.0.2.04.02.C03) was concluded on 9/3/2020 to finance the implementation of the action entitled: 3D Virtual Heritage. Implementation period started on 10/3/2020 and ended 18 months later on 10/9/2021. From the start of implementation of contract two on the spot verifications have been performed. The first OTSV was performed during the implementation period, i.e. on 28/5/2021, and its purpose was to determine if the implementation of the contract is ongoing according to the documents which were provided to the IA. According to the OTSV Report, documentation that had been verified had no irregularities. The second OTSV was performed on 18/1/2022 and its purpose was to review supporting documentation for the activities implemented during entire contract implementation period before the final payment is made. The conclusion in the OTSV Report was also that documentation that had been verified had no irregularities. Representatives of the responsible PIU (PIU Ministry of Science from the start of implementation period and after December 2020 PIU Ministry of Education, Science, Culture and Sports) didn't participated in either of the two OTSVs for this grant contract. Consequently, responsible PIU's support in covering technical aspects of the contract wasn't provided.</p> <p>Moreover, payment request for further pre-financing for grant contract CFCU/MNE/110 dated 20/04/2021, was received on 18/05/2021 by CFCU. Grant beneficiary requested reallocation between the budget headings above 25%. The first suspension of payment started from the day of receipt of payment request and lasted until 20/08/2021, even though on-the-spot verification was performed by CFCU on 23/7/2021. As a result of this OTSV, it was concluded that required information (car log book) should be submitted to CFCU at the latest by 30/07/2021 and no more irregularities were identified. After this, there were two more suspensions due to requests for additional information. Finally, written approval was issued on 21/10/2021 and payment executed on 22/11/2021.</p> <p>Additionally, payment request for further pre-financing for grant contract CFCU/MNE/109 dated 10/04/2021, was received on 13/05/2021. There were two requests for additional information before planned OTSV was performed on 30/07/2021 with no findings and irregularities and advice regarding licensing issue. After performed OTSV, the procedure and control activities for issuing the written approval lasted until 15/12/2021, and finally payment executed on 27/12/2021.</p> <p>Taking into account all previously described, we consider that on-the-spot verification for this grant contract, in general, didn't fulfill its purpose.</p>		
3.	<p>Finding: Omissions in the accounting procedure (Details: See section 4.4) Level of Priority: Minor Body/-ies concerned by the finding: Implementing Agency - CFCU</p> <p>According to the Manual of Procedures, chapter Accounting, section 4.1. Organisation of accounting system, the following is prescribed: “Accounting operations at the IA shall be</p>	<p>We recommend to CFCU to post omitted entries regarding grant contract CFCU/MNE/110 in order to ensure complete accounting. Also, we</p>	<p>Status: Implemented During system audit engagement in 2023 we noticed that part of this finding (which was open) can be closed.</p>

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	<p>operated by the Accountant and controlled by the Financial Controller, as well as approved by the Head of Finance Division. ...Detailed audit trail for accounting procedure is described in Annex 1.” And according to section 5. Records and control: “Source documents are the documents which are supporting the accounting entries. Each accounting entry is supported by a dated item of documentary evidence, e.g.: - copies of Invoices/Payment requests, - copies of Requests for funds to DMS and other relevant accounting documents... To ensure an efficient cross referencing, the following information will be mentioned on each journal base document and check-list attached to the source document: - Journal document number and identification type of source document, - Account(s) debited: number and amount, - Account(s) credited: number and amount, - Document date, - Posting date, - Signature of person responsible for making entries, - Signature of person responsible for control of these entries.” In the mentioned Annex 1 of the chapter Accounting, it is stipulated that accountant fills in the check-list for accounting procedure on the day of receipt of source document, and financial controller reviews the accuracy of the records and fills in, dates and signs the accounting check list next day from the receipt of documents from the Accountant. Reviewing and examining the documentation for the sample of transactions which we checked during this system audit, we noticed in a number of cases where accounting check lists are not filled in accordance with the procedure, i.e. the accountants didn't fill check lists on the day of receipt of source documents. Furthermore, regarding grant contract CFCU/MNE/110 “I know where just show me how” (M1.0.3.02.01. C20.r1), some entries in accounting software were omitted, as follows: - when request for funds was approved and notification letter sent to contractor on 22/11/2021, accounting entries for notification letter weren't made (965-915, 961-911); - when payment was executed to grant beneficiary on 22/11/2021, off balance accounting entry wasn't made (964-914). Additionally, for grant contract CFCU/MNE/109 accounting entry of the notification letter to contractor that payment will be executed was not made on the basis of this source document bearing in mind that accounting entry was made on 27/12/2021, although the date of notification letter is 28/12/2021 when actually it was sent to grant beneficiary.</p>	<p>recommend to improve controls within accounting procedures so that all relevant accounting entries are made and on the basis of source document and accounting check lists filled in line with prescribed procedures. Auditor's final conclusion: On the basis of received analytical cards for specific contracts during the performance of audit and evidence E-2, E-3, E-4 and E-5 enclosed by the auditee we can conclude that certain entries were posted or corrected after it was pointed out that there are omissions in accounting procedures. We consider this part of finding and recommendation closed. Regarding the accounting check lists, we mentioned in the finding that in a number of cases this check lists are not filled in line with prescribed procedures, on the day of receipt of source documents. We maintain our opinion and this part of finding and recommendation remain. The implementation will be monitored.</p>	
4.	<p>Lack of adequate audit trail for conducted controls within the tender procedure (Details: See section 4.4)</p> <p>Level of Priority: Intermediate Body/-ies concerned by the finding: Implementing Agency - CPA According to 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), Annex A, Clause 4, point (3), the</p>	<p>We recommend to CPA/IA to improve controls, perform relevant checks during the whole tender procedure and to document it, i.e. to ensure adequate and appropriate audit trail (signed appendix – annex)</p>	<p>Status: Implemented Taking into consideration the replies of the auditees as well as submitted evidence we consider this finding closed.</p>

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	<p>following provisions shall be respected: “The operating structure shall fulfil the following functions and assume the following responsibilities: ... (b) As regards the selection and control of actions and financial management, the operating structure shall in accordance with the relevant Articles of this Agreement: ... (iii) set up procedures to ensure retention of all documents regarding procurement, grant award, contracting, financial management, controls and audits required to ensure an adequate audit trail; ...” According to the MoP, chapter Contract procedures, it is prescribed that documents within main steps of procurement procedure have to be checked and verified by employees from Contracting division (contract managers, Head of CD), cross-checked by the Quality Assurance Specialist and endorsed/signed by the Head of IA. To confirm that these checks have been conducted, IA staff has to fill in and sign appropriate checklists (appendixes, annexes) for each type of procurement procedure. During this audit engagement we audited and assessed the effectiveness of the established internal controls in the Administration for Capital Projects (IA) related to, inter alia, conducting the tender procedure “Works for Adaptation of the school buildings for accessibility and movement of disable persons and persons with mobility difficulties” (publication ref: NEAR/TGD 12020/EA-LOP 10057). By reviewing and analyzing documentation related to this tender, we have determined that there is no adequate audit trail that appropriate checks of PIN, TD, SCN, CN, EvRep, CD have been conducted. During the interviews with ACP staff, we have been informed that they normally perform checks of all previously mentioned documents through all steps of procurement procedure but did not have any adequate evidence (appropriate appendix – annex) by which they could prove these claims, i.e. that relevant checks and verifications within aforementioned tender procedure have been performed. This may lead to the potential risk of inadequate preparation and endorsement of documents (PIN, TD, SCN, CN, EvRep, CD) during the tendering, evaluation and contracting phase. Potential omissions during the tender procedure may cause negative financial effects.</p>	<p>that controls/checks prescribed by MoP have actually been performed</p>	
<p>5.</p>	<p>Incomplete monitoring and reporting at action level (Details: See section 4.5) Level of Priority: Intermediate Body/-ies concerned by the finding: all PIUs According to the to the Manual of Procedures, chapter Programme Action Monitoring, section 3.3 Monitoring and Reporting at Action Level, the following is stipulated: “Drawn up under the coordination of NIPAC office and prepared by PIUs/Lead SPOs, QAMR contains financial data provided by the CFCU and PWA. QAMRs shall be submitted to the NIPAC office, quarterly during the year, with the following cut-off dates: 31st March, 30th June, 30th September and 31st December. QAMR shall be prepared and submitted to NIPAC office 10 working days after the cut-off dates. The Quarterly Action Monitoring Reports by the SPOs/PIUs provide the NIPAC office with up to date information on how the implementation of Action is progressing thus enabling the NIPAC office to perform active monitoring of Actions on regular basis.</p>	<p>We recommend to PIU MLSW, PIU MoE and PIU MSTD to improve reporting at the action level regarding physical progress of activities under their monitoring. Reporting should be timely and updated with achieved progress of all indicators from SOP, in accordance with prescribed procedures and IPA regulation. We recommend to PIU MHMR to prepare and submit QAMRs timely and regularly in line with</p>	<p>Status: Implemented Reporting was improved in line with the recommendation, and finding is closed. However, having in mind connection of this finding with finding given in Report on System Audit No. 3011-1-06-19/2 (February, 2020) a <u>further successful implementation will be followed up within the scope of findings No 2</u> (Report on System Audit No. 3011-1-06-19/2 (February, 2020)).</p>

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<p>In particular the Quarterly Action Monitoring Reports: provide regular and updated information on the last developments of the Action; provide information on the progress achieved with regard to purpose of the Action, conditionality, physical progress, results; signal about implementation problems, delays and propose corrective actions; provide information on organizational and staffing issues. The Report is submitted to the NIPAC/NIPAC office by the 10th working day of the month following the quarter concerned. The Annual Implementation Report of Action Programme will be prepared by the NIPAC office based on Quarterly Monitoring Reports prepared by the SPOs/PIUs and Semi –Annual Monitoring Reports prepared by NIPAC Office, which are inputs provided by SPOs/PIUs for drawing up Annual Implementation Report of Action Programme.</p> <p>For proper coordination of the reporting requirements, NIPAC Office shall lead the process of preparing of all monitoring reports. In order to ensure timely preparation and high quality of reports, the NIPAC office shall: sets a time-schedule for preparing the annual reports; issue guidelines and instructions to SPOs/PIUs regarding their input for annual reports at Action level; ensures for the quality control of the input, submitted by the SPOs/PIUs; monitor the time-schedule for preparation of annual reports, approval and submission.”</p> <p>During the performance of audit activities related to requirement 5 (a), we determined that monitoring and reporting activities are not in line with indicators set in SOPEES 2015-2017 and need certain improvements.</p> <p>PIUs in the MLSW and MoE prepared Quarterly Action Monitoring Reports for Sectoral Operational Programme on Employment, Education and Social Policies 2015-2017 on a regular basis. QAMR, inter alia, provide information on the physical progress achieved by activities under PIU MLSW monitoring, measured through indicators specified in SOPEES 2015-2017. Information in the aforementioned reports related to achieved progress at the cut off date of the report and the previous cut-off date aren't updated for the most of the indicators and are the same as in reports for previous year (QAMRs from 2021).</p> <p>Additionally, targets for some indicators in QAMR of PIU MLSW and PIU MoE are not the same as targets determined in the Sectoral Operational programme on Employment, Education and Social policies (SOPEES). For example, target for indicator “The share of self-employment in total employment” for Activity 1.1, is not set in QAMR of PIU MLSW as it is defined in the SOPEES. Also, targets for indicators “The number of educational programmes developed in accordance with the NQF, focusing on student-centered learning and developing 8 key competences” and “The number of educational institutions implementing modernized programmes” under Activity 2.2 as well as target for indicator “The number of educational programmes modularized for the SEN children/persons with disabilities” under Activity 2.3, are not set in QAMR of PIU MoE as they are set in the SOPEES.</p> <p>Furthermore, PIU MSTD is responsible for monitoring technical implementation of Activity 2.4 under Action 2 and monitoring physical progress through output and result indicators against targets set in (SOPEES). In QAMR physical progress of Activity 2.4 PIU in MSTD has been monitoring through two indicators: 1) number of PhDs employed in academic and research organizations and business sector, involved in R&D and 2) percentage of employers who are benefiting from R&D collaboration with academic and research organizations. Third</p>	<p>prescribed procedures.</p>	
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	<p>indicator, “Percentage of start-ups and spin-off companies involved in R&D activities established by PhDs”, is not being monitored through quarterly reports even though it is result indicator for activity 2.4 presented in the SOPEES. PIU MSTD prepared QAMR for third quarter of the 2022 with the cut off date 30/09/2022 on 17/11/2022, what is not in line with deadline for preparing and submitting of QAMR prescribed with procedures.</p> <p>During the desk checks performed and interviews conducted we determined that PIU MHMR, that is responsible for monitoring and reporting about Activity 3.3, prepared QAMR for third quarter of 2022 in line with prescribed procedures with several technical errors that were pointed out to employees of PIU. PIU MHMR was formed by separation of the Ministry of Justice, Human and Minority Rights in two ministries: Ministry of Justice and Ministry of Human and Minority Right in May 2022. During the system audit in 2021 we determined that monitoring activities of PIU MJHMR regarding IPA II 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES) had not been at satisfactory level and had not been in accordance with prescribed procedures. We found that responsible persons from PIU had not prepared and submitted QAMRs during 2021 on a regular basis. Also, we determined that QAMRs haven’t been prepared for the first and second quarter of 2022 by former PIU MJHMR.</p> <p>Therefore, we consider that reports on action level do not provide adequate and complete information regarding IPA II 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES).</p>		
6.	<p>Deficiencies in reporting on programme level (Details: See section 4.6) Level of Priority: Intermediate Body-ies concerned by the finding: NIPAC Office</p> <p>According to IPA II Implementing Regulation No 447/2014, Article 4, the National IPA Coordinator (NIPAC) shall be the main counterpart of the European Commission for the overall process of strategic planning, coordination of programming, monitoring of implementation, evaluation and reporting of IPA II assistance. Therefore, in line with the IPA II IR, the responsibility for the monitoring of implementation belongs to the NIPAC, who has to set up an adequate monitoring framework under the OS.</p> <p>According to 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), the following provisions shall be respected:</p> <p>Article 58 General reporting requirements to the Commission “By 15 February of the following financial year, the NIPAC shall provide the Commission with an annual report on the implementation of IPA II assistance. The report shall follow the model attached to the Financing Agreement and shall include in particular:</p> <p>(a) involvement of the IPA II beneficiary in programming, monitoring and evaluation, communication and visibility efforts;</p> <p>(b) problems encountered in meeting the required conditionalities and in ensuring sustainability, related measures taken/planned, main horizontal problems encountered and mitigating measures taken, problems encountered during implementation of activities;</p>	<p>We recommend to NIPAC office to perform quality check of QAMRs submitted by PIUs by filling in the Annex 10 – Quarterly Action Monitoring Report Quality Control Checklist in order to ensure adequate audit trail that prescribed quality checks have been performed.</p> <p>Furthermore, we recommend to NIPAC to improve quality of Annual Report on Implementation of IPA II Assistance and prepare it on the basis of complete and up to date information for the sector Employment, Education and Social policies.</p>	<p>Status: Implemented NIPAC office performed quality check of QAMRs submitted by PIUs and finding is closed. However, having in mind connection of this finding with finding given in Report on System Audit No. 3011-1-06-19/2 (February, 2020) <u>further successful implementation will be followed up within the scope of findings No 2</u> (Report on System Audit No. 3011-1-06-19/2 (February, 2020)).</p>

<p>(c) information on the indicators set up in the country strategy papers and in the programming documents specified in Section III of this Framework Agreement.”</p> <p>Also, according to the Manual of Procedures, chapter Programme Action Monitoring, section 3.3 Monitoring and Reporting at Action Level, the following is stipulated:</p> <p>“The Annual Implementation Report of Action Programme will be prepared by the NIPAC office based on Quarterly Monitoring Reports prepared by the SPOs/PIUs and Semi –Annual Monitoring Reports prepared by NIPAC Office, which are inputs provided by SPOs/PIUs for drawing up Annual Implementation Report of Action Programme.</p> <p>For proper coordination of the reporting requirements, NIPAC Office shall lead the process of preparing of all monitoring reports. In order to ensure timely preparation and high quality of reports, the NIPAC office shall: sets a time-schedule for preparing the annual reports; issue guidelines and instructions to SPOs/PIUs regarding their input for annual reports at Action level; ensures for the quality control of the input, submitted by the SPOs/PIUs; monitor the time-schedule for preparation of annual reports, approval and submission.”</p> <p>Analyzing documentation related to requirement 5 (a) On-going and specific monitoring from Internal Control Framework (Annex B to FwA) we identified some deficiencies.</p> <p>During the interviews conducted with employees of NIPAC office, we were told that quality checks of QAMRs submitted by PIUs are regularly performed, even though we were not presented with proof that quality checks are being performed in line with prescribed procedures, i.e. they didn’t fill in the Annex 10 – Quarterly Action Monitoring Report Quality Control Checklist.</p> <p>The Annual Report on Implementation of IPA II Assistance in Montenegro for 2021 was issued by NIPAC on 15/02/2022 covering the period 01/01/2021-31/12/2021 (Cover letter No: 01-004-908/22). The first technical deficiency is related to the report name because it was stated „ANNUAL IMPLEMENTATION REPORT FOR COUNTRY ACTION PROGRAMMES IN MONTENEGRO SUBMITTED BY THE NATIONAL IPA COORDINATOR “. In the table of content of the report, under chapter Information per sector, only sector Employment, Education and Social policies is not named, although information about this sector are presented in the report.</p> <p>Additionally, information on the implementation of contracts in the sector of Employment, Education and Social policies related to Action 2, that was in 2021 under responsibility of the Ministry of Education, Science, Culture and Sports, are not presented in the report. Also, in the table with indicator per sector Employment, Education and Social policies eight indicators for Action 2 are presented and PIU MESCS tracked in QAMRs achieved progress of thirteen indicators for Action 2. Moreover, indicators for Activity 3.3 that is under responsibility of PIU MHMR are not even presented in the table with indicators for this sector. Finally, overview at the action level per sector „Education “doesn’t provide information about main achievements and assessment of progress per particular activity. Therefore, we consider that report on programme level does not provide adequate and complete information regarding IPA II 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES).</p>		
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Table 7

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In 2019 AA carried out system audit that included all IPA bodies which constitute managing and operating structure for 2015-2017 SOPEES, seven findings and recommendations had been given out of which five were implemented and two partially implemented.

In system audit carried out during 2020 six findings and recommendations had been given which all were implemented.

Within system audit conducted in 2021, five findings and recommendations were issued which all were implemented.

Within system audit conducted in 2022, six findings and recommendations were issued out of which four are implemented and two not implemented.

Within system audit conducted in 2023, five findings and recommendations had been given out of which one is implemented during contradictory procedure.

All findings from previous period with status were preliminary closed, now we consider closed.

Total number of determined findings and recommendations with status of implementation of recommendation is given in table below:

<i>Period</i>	<i>No of identified findings and given recommendation</i>	<i>No of implemented recommendation</i>	<i>No of partially implemented recommendation</i>	<i>No of non-implemented recommendation</i>
2019	7	5	2	0
2020	6	6	0	0
2021	5	5	0	0
2022	6	4	0	2
2023	6	1	0	5

Table 8

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Part II: Follow-up of findings issued within the audits of operations			
List of system findings from the Report on the Audit of operations No. 3011-2-06-181 (6th March 2023)			
No	F I n d I n g	Recommendation	Status in March 2024
1.	<p>Inadequate recording of assets (CFCU/MNE/175) Details: See section 2.1) Body/-ies concerned by the finding: Ministry of Education (MoE)/Ministry of Education, Science and Innovation (MESI) The Law on State-Owned Property stipulates the obligation of keeping records of the state-owned property as well as obligation of establishing single records of the state-owned property. The authorities shall submit data on movable and immovable items to the authority in charge of property operations in electronic form, for the purpose of keeping Real Estate Registry, i.e. accounting records of movable items, and the same authorities shall submit by the end of February of the current year for the previous year. The subject of supply contract CFCU/MNE/175 "Purchase of teaching aids and IT equipment for schools in Montenegro" was equipping 40 schools in Montenegro with 19 identical items. By reviewing and analysing documentation and during the fieldwork related to supply contract CFCU/MNE/175, we determined that equipment, which was delivered in December 2021, was not adequately recorded/listed into the schools' registers because it doesn't have assigned registration numbers and purchase value in line with Annex IV Budget breakdown of this contract.</p>	<p>We recommend that all equipment purchased for forty schools through supply contract CFCU/MNE/175 be properly listed and entered into the property register of schools with purchase values and registration numbers assigned in order to ensure that the exact location and user of each item is easy to identify.</p>	<p>Status: Partially implemented New implementation deadline: 1 Q 2024 By the insight into submitted evidence, we noticed that contracts on ownership are signed. However, to ensure full implementation of recommendation, it is necessary to submit to us property registers of schools with purchase values and registration numbers assigned.</p>
2.	<p>Transaction Finding No: 1 Ineligible expenditure related to VAT Project name and number: Support to Self-Employment No. CFCU/MNE/086 Body/-ies concerned by the finding: CFCU (IA), EAM, NF</p> <p>CFCU issued written approvals and recognized costs on the basis of incomplete documentation and for the amounts of advance payments which EAM paid to sub-grant beneficiaries within the first and second public calls. At the moment of issuing these 2 WAs, amounts which EAM reported to CFCU were not related to costs which had been incurred, accepted and supported with relevant documents, i.e. did not satisfy all conditions to be treated as recognized costs.</p> <p>Bearing in mind previously described, i.e. that recognized and declared costs within Direct Grant Contract included VAT, we consider this cost ineligible for financing from the Programme. Based on documentation obtained, we couldn't determine exact amount of VAT included in the recognized costs for selected sub-grant contracts within the 2nd public call, so we had limitation in determining the total amount of reported/declared VAT, i.e. total amount of ineligible costs.</p>	<p>Recommendation: We recommend CFCU to strongly respect the provisions of relevant regulation and issue written approvals only for costs which have been actually incurred, accepted, paid and supported with appropriate documentation. We recommend to CFCU, in coordination with EAM, to exclude VAT from all costs which were approved and declared within Direct Grant Contract CFCU/MNE/086 and, in line with this, to NF to correct the amount of reported recognised costs in the next Declaration of Expenditure</p>	<p>Status: Partially implemented During audit of accounts we determined that CFCU on 29th December 2023 issued Written approval of the Final Report is stated "Bearing in mind that VAT is not acceptable, the amount approved under this WA was deducted for the amount of VAT accepted within previous Written approval". Insight into AFR 1 item cost recognized we determined that this finding is properly treated. Since that Final Statement is not submitted to EC, we consider the recommendation is partially implemented.</p>

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3.	<p>Finding No: 2 Inadequate calculation of liquidated damages</p> <p>Project name and number: Purchase of teaching aids and IT equipment for schools in Montenegro No. CFCU/MNE/175</p> <p>Body/-ies concerned by the finding: CFCU(IA), Ministry of Education (MoE)</p> <p>The total amount of payments made regarding supply contract CFCU/MNE/175 was greater than it should have been, because liquidated damages were calculated for 13 visited schools and not for remaining 27 school to which the identical equipment was delivered. Therefore, the amount of 3.207,60 € is considered ineligible.</p>	<p>Recommendation:</p> <p>The expenditure in the overall amount of 3.207,60 EUR (EU contribution 2.726,46 EUR and national contribution 484,14 EUR) is considered ineligible for being financed from the Programme and should be recovered.</p>	<p>Status: Partially implemented</p> <p>Insight into AFR 1 item cost recognized we determined that this finding is properly treated. The amount of ineligible cost is not included in cost recognized. Since that Final Statement is not submitted to EC, we consider the recommendation is partially implemented.</p>
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Table 9

Within audit of operations conducted in 2021, four findings and recommendations were issued and implemented.

Within audit of operations conducted in 2022/2023, three findings and recommendations were issued. One system finding and recommendation was issued, which is at the end of December 2023 partially implemented.

Two transaction findings and recommendation were issued. Both are implemented partially during Audit of accounts. Having in mind that findings with financial impact can be closed after submission of Final Declaration of expenditure, two out of three findings remained open.

In 2023 there were no Audit of operations (see chapter 5 of this Report).

All findings from previous period (reported in AAAR for 2022) status of which was preliminary closed, we now consider closed.

<i>Period</i>	<i>No of identified findings and given recommendation</i>	<i>No of implemented recommendation</i>	<i>No of partially implemented recommendation</i>	<i>No of non-implemented recommendation</i>
2021	4	4	0	0
2022	3	0	3	0

Table 10




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Part III: Follow-up of the findings and recommendations issued by external audits, i.e. Moore Stephens' Audit on information security (ICT)

No	Finding	Recommendation	Management Response	AA's proposal of status at the end of December 2023	AA's proposal of new deadline for implementation
H1	<p>Minimum levels of acceptable information security not formally identified. Priority level: High Body/-ies concerned by the finding: All</p> <p>There was an inadequate definition and documentation of information security policies and procedures for IPA bodies. The IPA IT set of policies has not been based on a defined IPA IS strategy or assessment of IPA information security threats and was based on a general set of policies that did not reflect the actual roles and procedures being performed in the IPA IT environment. In Annex 1-Operational Procedures, forms such as SP1.00 and OC1.10 were referenced but there was no evidence that these forms were actually used by IPA bodies. Policies on end-user-oriented topics such as Acceptable Use of Internet and Acceptable Use of Email were missing, as were Clear Desk and Clear Screen policies.</p>	<p>We recommend that a set of information security policies are defined, documented and published that address requirements created from a clear and concise information security strategy and the current and projected information security threat environment. They should contain statements concerning the definition of information security, objectives and principles to guide all activities relating to information security and the assignment of roles and responsibilities and which, at a lower level, should be supported by topic-specific policies, including end-user-oriented topics such as the acceptable use of assets and clear desk/clear screen.</p> <p>These policies should be documented, approved and communicated to employees and relevant external parties in a form that is relevant, accessible and understandable to the intended reader.</p> <p>Each policy should be reviewed at planned intervals or when significant changes occur to ensure their continuing suitability, accuracy and effectiveness. Each policy should have an owner who has approved management responsibility for the development, review and evaluation of the policies.</p>	<p>MS reply: Within TA project Support to the Directorate of Management Structure, an IT expert, Mr Goran Chamurovski has been engaged in relation to resolving Information Security Policy issues. Within timeframe of 9 months (period of implementation of TA project), policies on end-user-oriented topics such as Acceptable Use of Internet and Acceptable Use of Email, Clear Desk and Clear Screen will be developed, and dissemination will be conducted through organized trainings.</p> <p>Additionally, 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.</p> <p>In this regard, TA expert prepared information of envisaged activities in terms of deliverables under the contract for Support to Management Structure.</p> <p>These deliverables are:</p> <ul style="list-style-type: none"> Action plan on ISO Standard 27002 set and communicated throughout the IPA structures; 	<p>Status: Not implemented</p> <p>According to auditees' response, it is evident that the recommendation has not been implemented in the previous period.</p>	<p>III Q 2024</p>

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			<ul style="list-style-type: none"> • Information security policy; • Timeframe of the treatment of the referent measures respecting EC audit findings; • Holding awareness sessions on the Information Security Policy. <p>Detailed information are attached in the presentation below:</p>  <p>ActionPlan_Presentation.pdf</p>		
H2	<p>No Information Security awareness education or training. Priority level: High Body/-ies concerned by the finding: all</p> <p>There is no information security awareness education or training and consequently, a low awareness of information security threats.</p>	<p>We recommend that all IPA staff and where relevant, IPA contractors, receive appropriate IS awareness education and training and regular updates.</p> <p>An IS awareness programme should make staff aware of their responsibilities for security and the means by which those responsibilities are fulfilled. The IS awareness programme should be established in line with the IS policies and relevant procedures.</p> <p>The programme should also cover general aspects such as:</p> <p>a) management’s commitment to IS throughout the organisation;</p> <p>b) the need to become familiar with and comply with applicable rules and obligations, as defined in policies, standards, laws, regulations, contracts and agreements;</p> <p>c) basic IS procedures (such as IS incident reporting) and baseline controls (such as password security, malware controls and clear desks).</p>	<p>MS reply: Within TA project Support to the Directorate of Management Structure two meetings with representatives of relevant IPA institutions were organised related to ISP education and raising awareness on the Information Security policy. Attendance sheets are attached below:</p>  <p>Attendance_MPA.pdf</p>  <p>Attendance_CPA_MEA_CFCU_TL.pdf</p> <p>Additionally, within abovementioned TA project, trainings are planned to be conducted in regards to ISP education and raising awareness on the Information Security policy</p>	<p>Status: Partially implemented</p> <p>Based on auditees’ response and obtained documentation, we consider that IPA structure is aware of importance of education and trainings related to raising information security knowledge and awareness. Trainings were organized. Having in mind that within TA project Support to the Directorate of Management Structure, trainings are planned to be conducted in regards to ISP education and raising awareness on the Information Security policy for the IPA staff in the upcoming period, we will monitor implementation of this recommendation.</p>	<p>III Q 2024</p>




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			<p>for the IPA staff in the upcoming period.</p> <p>We are also emphasizing that IPA Training Module has been developed for 2022 and 2023 in cooperation with Human Resources Management Authority, and one of the areas that IPA module covered was IT security policy. In this regard training on „Information Security and Management under standard ISO 27002 on the level of IPA bodies was organized. Relevant attendance sheet is attached bellow:</p> <p></p> <p>Attendance sheet_ISO 27002.pdf</p> <p>MPA reply:</p> <p>The Human Resource Management Administration has two training programs - Information Security and Data Protection. In addition, the Ministry of Public Administration has envisaged the strengthening of the Government CIRT with the new Rulebook on Systematization, in the part related to the formation of a special unit in whose competence will be to raise awareness of information and cyber security, as well as to provide specific guidelines for safer use of the Internet and services in state administration bodies.</p> <p>Information Security awareness raising is carried out through</p>		
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			educational programs in the field of security that are established within the Digital Academy. Also, it is planned to establish a Cyber Academy, which will provide education exclusively in the field of information and cyber security. At the same time, although it is an international organization that will be established in 2024, the Center for Cyber Capacity Development of the Western Balkans (WB3C) also permanently educates officials from various structures of state administration bodies from Montenegro on all relevant topics related to cyber hygiene, cybersecurity, cybercrime and cyberdiplomacy.		
H3	<p>No information security policy for Third Party Service Suppliers. Priority level: High Body/-ies concerned by the finding: All</p> <p>There is no information security policy that defines the risks associated with the use of Third Party Suppliers, their responsibilities, requirements for Third Party Service Providers to access IPA body systems, and service agreement security provisions such as data confidentiality.</p>	We recommend that a third party service provider policy is developed that identifies and mandates security controls to specifically address third party supplier access to IPA body systems and to ensure protection of IPA body assets.	<p>MS reply: Within TA project Support to the Directorate of Management Structure, third party service provider policy will be developed with the aim to identify and mandate security controls to specifically address third party supplier access to IPA body systems and to ensure protection of IPA body.</p>	<p>Status: Not implemented</p> <p>According to auditees' response, the recommendation has not been implemented in the previous period. Thus, we consider this finding still open.</p>	III Q 2024
H4	<p>Inadequate documentation of IT Change Management. Priority level: High Body/-ies concerned by the finding: All</p>	We recommend that a detailed Change Management Policy and Procedures are defined, documented and published to increase awareness and understanding of the proposed changes and to ensure that they are made in a controlled way that minimises the impact on IPA body staff and	<p>MS reply: Taking into account this recommendation, as well as recommendation from the audit of SAP IPA Information system for IPA II programmes, NAO/DMS</p>	<p>Status: Implemented</p> <p>According to auditees' response, improvement is made. NAO/DMS prepared SAP IPA Instructions, which,</p>	N/a

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	<p>There is insufficient definition and documentation of IT Change Management, the formal process for making changes to IT services. This is particularly important and relevant in view of the new custom SAP module being developed by a Third Party provider to replace the current Project and Accounting System (PIS) which is scheduled to be implemented in October 2016. While we believe, from interviews with key personnel involved in this project, that development of this new software is generally following good practices, there is no detailed documentation on how changes are to be assessed, the requirements for different types of changes, how changes are to be documented, tested, tracked and implemented, and the roles and responsibilities, in particular, of third party developers.</p>	<p>services. We further recommend that a post implementation audit is considered following the implementation of the new SAP accounting module, which is critical to the IPA processes.</p>	<p>prepared SAP IPA Instructions, which, among several other things, prescribed instructions on reporting on issues/errors and keeping evidence on it. SAP IPA Instructions. Attached is document which is developed, as well as supporting annex related to the evidence on issues solved/to be solved in relation to SAP IPA:</p> <p align="center">  SAP IPA_Instructions by I </p> <p align="center">  SAP IPA_Annex 1.xlsx </p>	<p>among several other things, prescribed instructions on reporting on issues/errors and keeping evidence on it. Additionally, in the audit of SAP IPA Information system for IPA II programmes we recommended setting the "rec/client" parameter to "all" or to a specific client and making sure automatic change recording is activated for the table so the system will automatically log changes in a table, and after submitted answer and evidence by auditee, we closed this finding.</p> <p align="center">  Finding No 8.pdf </p> <p>All other IT services are under the control of the Ministry of Public Administration.</p> <p>Therefore, we consider this finding closed.</p>	
<p>H6</p>	<p>No Business Continuity Plan (BCP) or Disaster Recovery Plan (DRP). Priority level: High Body/-ies concerned by the finding: All Whilst there were policies that required Business Continuity and/or a Disaster Recovery Plans, we found no evidence that actual plans had been documented and published. This was also a finding in a previous</p>	<p>We recommend that Business Continuity and Disaster Recovery Plans are defined, documented and published, and that they are reviewed and tested at least annually. In order to develop these plans, a formal Business Impact Analysis will need to be conducted to determine the critical operations and systems and to agree appropriate recovery times which will meet the needs of each IPA entity.</p>	<p>MS reply: Within TA project Support to the Directorate of Management Structure Policy on Classification Information Assets will be created and it will represent baseline for creating policy for establishment of Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP).</p> <p>MPA reply: The Disaster Recovery Plan</p>	<p>Status: Not implemented</p> <p>According to auditees' response, the recommendation has not been implemented in the previous period. We will monitor the implementation.</p>	<p>III Q 2024</p>

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	<p>audit. A BCP is an essential part of an organisation's response planning. It sets out how the entity will operate following an incident and how it expects to return to 'business as usual' in the quickest possible time afterwards. The DRP describes the plans for recovering the IT systems.</p>		<p>(DRP) is designed to be classified as confidential. However, it was never officially adopted. Since this version was aligned with an earlier version of the standard, it is necessary to revise the document and align it with the latest version of the standard.</p>		
H7	<p>There is no Removable Media Policy. Priority level: High Body/-ies concerned by the finding: All</p> <p>Removable media is defined as devices or media that is readable and/or writable by the end user and are able to be moved from computer to computer without modification to the computer. Removable media is a well-known source of malware infections and has been directly tied to the loss of sensitive information in many organisations.</p>	<p>We recommend that a Removable Media policy is created and included in the set of IPA body Information Security Policies to help protect against the introduction of viruses and the loss of sensitive data.</p>	<p>MPA reply: After the cyber-attack occurred on the Government information infrastructure, use of USB is prohibited at the network level, but we do not know is that adequately prescribed in a procedure. Even in the Regulation on Information Security Measures does not explicitly state that USB should not be used, but we have applied this control in relation to best practice.</p>	<p>Status: Partially implemented</p> <p>According to auditees' response, use of USB is prohibited at the network level. Since this issue is not prescribed in procedure, we consider the recommendation partially implemented. We will monitor the implementation.</p>	III Q 2024
H8	<p>There are no policies and procedures on the use of offices outside government buildings. Priority level: High Body/-ies concerned by the finding: Ministry of Economic Development (former Ministry of Labour and Social Welfare)</p> <p>Seven out of eight of the IPA team are accommodated in a separate building in rented offices that are not part of the Ministry of Labour and Social</p>	<p>We recommend that the IPA Information Security policies and procedures are updated to regulate the use of offices outside of official government buildings and local user accounts and that the policies and procedures are enforced. We also recommend implementation of an ICT solution to connect the network in the separate building to the government active directory structure and adequate network security</p>	<p>PIU MLSW reply: The Government of Montenegro that was established on 29th April 2022 and the Decree on the organization and manner of work of the state administration that was adopted on 6th May 2022 have significantly changed the organization of the entire state administration. The MLSW has been newly established and according to this, the organization of the former MED PIU has been divided on two PIUs in MLSW</p>	<p>Status: Implemented</p> <p>According to auditee's response and checks performed, we found that PIU of former MLSW is now located at the main building with a workstation connected directly to the government network and can use resources from the network. Since MLSW submitted evidence that employees of MLSW are in the main building and they are part of</p>	N/A

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	<p>Welfare (MLSW) government building. Only the Head of the IPA body is in the MLSW building and has a workstation connected to the government network and can use resources from the network (IPA portal and Origami Document Management System). The other IPA employees have a separate direct connection to the Internet that is not protected by a firewall or Intrusion Detection software, they are not part of the government Active Directory structure for user accounts, and have the rights to modify computer-wide settings, to install drivers, and to run (or install) non-certified program on their desktops. This practice does not comply with IPA body information security policies and procedures</p>		<p>and the former MEDT. The PIU MLSW is still located in the main building with a workstation connected directly to the government network and can use resources from the network. As well, the MLSW in cooperation with the MPA has ensured that relevant MLSW Directorates located outside the main building have established connections with the government network. The connection between official government buildings and local user accounts was provided via wireless antennas that the MPA procures from the company Orion telecom. In any case, it will be initiated that the MPA bring a permanent and stable solution to this issue.</p>	<p>the Directory structure for user accounts, we consider that recommendation is implemented.</p>	
H9	<p>Third party service provider use of remote access is not documented. Priority level: High Body/-ies concerned by the finding: NAOSO/NF/CFCU and PWA (former DPW) Third party service providers use remote access to maintain and support the MIST network and Ministry of Finance and DPW domains (sub networks) and servers but this is not documented.</p>	<p>We recommend that IPA Bodies and Ministries allowing remote access activities issue a policy that defines the conditions and restrictions for such access.</p>	<p>MPA reply: There is a form of request to open a VPN account. VPN accounts are opened on request. Restrictions on officials are that it can only be accessed with Windows 10 and when users connect to a VPN, they can't use something else. The restriction for vendors is that they can access the content they administer. Each server is in a separate zone and a zone is defined for each user.</p>	<p>Status: Not implemented We did not receive relevant and concrete evidence which proves that recommendation was adequately treated. Policies and procedures that define the conditions and restrictions for access by third party service providers have not been provided. Thus, we consider this finding still open.</p>	III Q 2024
M1	<p>No Information Classification Priority level: Medium Body/-ies concerned by the finding: All Information classification</p>	<p>We recommend that information is classified in terms of legal requirements, value, critically and sensitivity to unauthorised disclosure or modification. We also recommend that the NAO should draft</p>	<p>MS reply: Within TA project Support to the Directorate of Management Structure Policy for Information Classification will be developed</p>	<p>Status: Not implemented According to auditee's response, no specific classification of the respective</p>	III Q 2024

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	<p>provides staff who deal with sensitive data with a concise indication of how to handle and protect it. Grouping information with similar protection needs and specifying information security procedures that apply to all the information in each created group facilitates this and reduces the need for case-by-case risk assessment and custom design of controls.</p> <p>We noted that there is no classification of information in terms of its importance to the IPA bodies.</p>	<p>an information classification policy for IPA bodies. This will enable appropriate consistency of information classification to be applied to all IPA bodies.</p> <p>The classification scheme should include conventions for classification. The level of protection should be assessed by analysing confidentiality, integrity and availability and any other requirements for the information considered. Each level should be given a name (e.g. 'Confidential', 'Sensitive', 'Internal', 'Public', etc.) that is relevant in the context of the classification scheme</p>	<p>and monitored by respective IPA institutions.</p>	<p>IPA information has been prescribed under referent IPA procedures.</p> <p>Thus, this finding remains open.</p>	
M2	<p>Inadequate Asset Management.</p> <p>Priority level: Medium</p> <p>Body/-ies concerned by the finding: All</p> <p>An asset is anything that has value to the organisation and which therefore requires protection. Asset identification should be performed at a suitable level of detail that provides sufficient information for the risk assessment.</p> <p>At the time of our audit, we noted that there is an inadequate inventory of assets in the IPA bodies. While IPA body users do sign a paper form certifying ownership of a desktop that is retained, these signed paper forms do not give an easily available and understandable inventory of an IPA body assets. The IPA IT Policy states that one of the duties of an IT Coordinator is 'Keeps a detailed record of all IPA Body's</p>	<p>We recommend that an electronic inventory of assets be created for each IPA body that includes both equipment, information assets and information processing facilities so that the appropriate protection can be identified and provided to each of these assets. Owners should be assigned to the assets and the acceptable use of information and equipment be defined.</p>	<p>MS reply:</p> <p>An inadequate inventory of assets in IPA bodies will be treated in revised Action Plan ISO 27002 prepared with the support of IT expert engaged within TA project Support to the Directorate of Management Structure and the MPA. Additionally, Risk posture monitoring and mitigation shall be outsourced to the MPA.</p>	<p>Status: Partially implemented</p> <p>Recommendation is not fully implemented, therefore finding remains open.</p>	III Q 2024

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	equipment, its age and condition' but we found that this was not the case in practice.				
M3	<p>Backup and Restore policies and procedures are inadequately defined. Priority level: Medium Body/-ies concerned by the finding: All</p> <p>There are defined and documented backup and restore policies and procedures but they are very general and do not reflect which backups are actually being performed. For example, the IPA Project and Accounting System is on a server in the Ministry of Finance server room. A full backup to disk is performed daily by a third party service provider to another server in the same server room and only the most recent backup is retained but this does not appear anywhere in the backup and restore policies and procedures. We learned that the IPA Portal is not backed up at all. The Audit Authority is primarily responsible for ensuring that audit data on user systems is not lost but this is not clear from its backup policy and procedures.</p>	<p>We recommend that backup and restore policies are defined, documented and published to reflect current procedures being followed in IPA bodies. They should include application, user desktop and shared drive backups.</p>	<p>MS reply: Within TA project Support to the Directorate of Management Structure one of the activities will be defining adequate Backup and Restore policies and procedures. Location of the backup and restore equipment will be decided in the future period between MPA and IPA institutions.</p>	<p>Status: Not implemented</p> <p>Based on auditees' response, IPA procedures have not been upgraded yet. Finding remain open and we will monitor the implementation of recommendation.</p>	<p>III Q 2024</p>
M4	<p>There is no current service agreement with a third-party service provider. Priority level: Medium Body/-ies concerned by the finding: Public Works Administration (former Directorate for Public Works) The Audit Authority does not have a current service agreement</p>	<p>We recommend that updated service agreements with the providers be obtained as soon as possible.</p>	<p>CPA reply: Capital Project Administration (former Public Works Administration) used local AD (djr.loc) at the time of obtaining this finding. After the cyber-attack on the Government's IT infrastructure, in the August 2022 on the proposal of the Ministry of Public</p>	<p>Status: Implemented</p> <p>CPA submitted evidence that it/they does/do not use local AD (djr.loc) any more. Therefore, the need to update service agreements with providers (third party provider) has ceased to exist. AA has ensured Invoice based</p>	<p>N/A</p>

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	with the third-party provider that hosts its website to which audits for viewing by the public are posted. In addition, the Directorate for Public Works (DPW) does not have a current service agreement with its local partner to provide IT services.		Administration, CPA AD is moved to a centralized AD (isu.gov.me) which is used by all state administration bodies. Having in mind that CPA does not use local AD (djr.loc) any more, the need to update service agreements with providers (third party provider) has ceased to exist.	service agreement with the third-party provider that hosts its website. We consider this finding closed.	
M5	There are no documented policies or procedures for Vulnerability Scanning. Priority level: Medium Body/-ies concerned by the finding: All Vulnerability scanning is an important and necessary component of information security policies and procedures in which devices connected to the network are probed in an attempt to identify security-related issues. However, there is no defined and documented process for vulnerability scanning in IPA bodies.	We recommend that a Vulnerability Scanning Policy is defined, documented, published and included in the IPA Information Security set of policies. This policy should include a list of devices subject to vulnerability scanning and which body will perform the vulnerability scans	MPA reply: In practice, MPA is conducting a Vulnerability Scanning. However, MPA do not have a Vulnerability Scanning Policy defined. The Vulnerability Scanning Policy needs to be developed in the future period.	Status: Not implemented According to auditees' response, the recommendation is not implemented. We will monitor the implementation of recommendation.	III Q 2024
M7	Wireless Network is not separate from the core government network. Priority level: Medium Body/-ies concerned by the finding: Ministry of tourism, ecology, sustainable development and development of the north (former Ministry of Ecology, Spatial Planning and Urbanism/Ministry of Sustainable Development and Tourism) Guests and mobile phone users can log on to the wireless network in this Ministry. This wireless network is restricted by	We recommend that MSDT implement controls to better protect networks and connected services from unauthorised access. One such method of managing the security of the network is to divide the network into separate network domains. The domains can be segregated either physically or logically (e.g. virtual private networking). Appropriate logging and monitoring should be applied to enable recording and detection of actions that may affect, or are relevant to IS	MTESDDN reply: Since the Cyber-attack that occurred in 2022, Wireless Networks are forbidden in Ministry of tourism, ecology, sustainable development and development of the north. N/A	Status: Implemented Based on auditees' response and checks performed, we found that logging on wireless networks is no longer possible.	N/A

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	the use of a password but it is not separated from the government network and not regularly monitored. This increases the risk of unauthorised access to the government network.				
M8	<p>No review of Antivirus logs. Priority level: Medium Body/-ies concerned by the finding: All</p> <p>Whilst up to date Antivirus software was observed to be on all systems and is centrally managed by the government Ministry of Information Society and Telecommunications (MIST), there was no evidence of regular reviews of Antivirus logs/events.</p> <p>Reviewing Antivirus logs is an important control to identify and analyse the reasons for AV infections. Antivirus software logs the cases where malicious software was detected but not cleaned (for various reasons) and any Antivirus update failures, all of which are important to know about to ensure that Antivirus protection is current.</p>	<p>We recommend that standard scheduled scans are configured on the Antivirus software for all systems and that Antivirus logs/events are regularly reviewed by MIST and IPA body IT Coordinators.</p> <p>Logs/events containing sensitive data or personally identifiable data should be stored in line with the information classification policy. These logs/events should be protected against tampering and unauthorised access.</p>	<p>MPA reply: Antivirus scanning is performed regularly (it is automated) and logs are monitored. As far as Personal Identifiable Data or Sensitive Data is concerned, MPA do not have the detection of such data (of course, such data should not be stored on domain computers). This should be implemented because of GDPR and other regulations. For this, MPA need a software solution, which can maybe be obtained from some donation.</p> <p>Reports from MPA on scans performed, Protection status reports, etc</p>	<p>Status: Implemented</p> <p>We received a confirmation in the form of a screenshot showing that an on-demand full scan of workstations are performed on Tuesdays and Saturdays at 08:00 am. In addition to scheduled full scans, on-access (real-time) scans of all actions that can potentially contribute to disrupting the integrity and security of the information and communication network are continuously performed. Therefore, we consider finding closed.</p>	N/A

Table 11

As a result of this follow up, AA’s proposal of status is that 5 out of 15 total open findings should be closed, while 10 findings remain open (for 3 out 10 open findings recommendations had been partially implemented).

➤ *Part IV: Follow up of findings and recommendation issued by BDO's Audit on Internal Audit Capacities (IAC) in the context of Internal Control Framework under the Instrument for Pre-Accession (IPA II)*

At the moment when BDO's Report (Ad Hoc Audit on Internal Audit Capacities in the context of Internal Control Framework under the Instrument for Pre-Accession II (IPA II) in Montenegro) was issued (February 2019), Internal Audit Units (IAUs) in every Ministry had obligation to conduct internal audit of EU funds under the Instrument for Pre-Accession (IPA II).

The Decree for establishment of internal audit in the public sector of the 10th of September 2021 prescribes that **centralised Internal Audit Unit responsible for audit of EU funds had to be established within Ministry of Finance**. Having this in mind, status of recommendations given in this follow up is given on the basis of the fact that centralised Internal Audit Unit within Ministry of Finance now has a role of performing audit of EU funds under IPA II in public sector.

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

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Part IV: Follow up of findings and recommendation issued by BDO's Audit on Internal Audit Capacities (IAC) in the context of Internal Control Framework under the Instrument for Pre-Accession (IPA II)

No	Finding	Recommendation	Management response October 2023	AA's proposal of status, priority level and new deadline in October 2023
IAC1	<p>Demonstrating independence and objectivity.</p> <p>Priority level: High</p> <p>Body/-ies concerned by the finding: Ministries and the CHU</p> <p>Compliance with the independence and objectivity requirements of Standard 1100 is conventionally achieved through an Audit Committee, which reviews, challenges and approves the internal audit remit and outputs, and which ensures that internal audit is free from the influence of those being audited and that internal auditors are fully objective in the execution of their work. There is no specific entity within any of the Ministries or Departments performing this role, and auditors report directly to the Minister or Commissioner, who is also their line manager for performance appraisal purposes. Regular access to senior management varied between Ministries: generally, internal auditors are not regarded as being members of senior management and do not attend senior management meetings. All audit staff whom we interviewed were adamant that they had never felt any undue influence or pressure to amend the contents of their reports, and stated they had sufficient access to the Minister or Commissioner for the purposes of their work. We were also made aware of examples where internal auditors report to the NAO and CHU, which provides an alternative</p>	<p>Ensure that the internal audit activity can report its plans, activities and outcomes, and which will help demonstrate that the auditors are fully independent from the Minister / Commissioner, and from the Ministry / Commissariat.</p> <p>Invite the head of audit, or, in the absence of a head of audit, an appropriately senior and qualified internal auditor, to attend periodic senior management meetings and present key audit documents such as the annual audit plan, the mid-year report and the annual report.</p>	<p>Based on the information which we gathered in the process of preparation of Consolidated report on governance and internal controls in public sector for 2022 (attached), 77.4% of the heads of the Internal Audit Units attends senior management meetings when issues important for the work of internal audit are resolved.</p> <p>Moreover, CHU continuously encourage heads of IAUs to much more communicate with top management of the organisation and have meetings on a regular basis in order to discuss on plans, activities, outcomes and recommendations for improvements.</p>	<p>Status: Implemented</p> <p>Based on auditees' response and information provided in Consolidated report on governance and internal controls in public sector for 2022, it is evident that progress has been made regarding involvement of IAUs at periodic senior management meetings. Percentage of the heads of the IAUs that attend senior management meetings increased in regard to previous period.</p> <p>Taking into consideration the above and having in mind facts given in point 1. of this Report, we consider this finding closed.</p> <p>However, this issue will be in scope of audit of AA in the upcoming period with regards to Centralised IAU responsible for audit of EU funds.</p>

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	mechanism for mitigating the risk of undue influence. Nevertheless, these reporting arrangements could potentially compromise auditors' independence in planning and performing their work.			
IAC2	<p>Developing and ensuring proficiency.</p> <p>Priority level: High</p> <p>Body/-ies concerned by the finding: Ministries and the CHU</p> <p>Although there has been a gradual shift towards risk-based auditing, the focus is still on compliance and operational risks, rather than more strategic risks. Fraud and governance risks are not routinely identified (neither auditors nor clients recognised this as a problem in the survey (Annex G, questions 13.10 and 29.23 and Annex H, question 27.22 respectively) and no use is made of technology-based audit (identified as a weakness by auditors (Annex G, questions 12.9 and 30.34) and non-IPA clients (Annex H, question 26.21)). Auditors do not currently have the understanding or training to address these weaknesses, although three IT auditors are being trained. Audit clients in the surveys did comment on auditors' dedication, enthusiasm and commitment to learning and improving their knowledge (Annex H, question 37.31).</p>	Provide practical support and advice in the manual and via workshops, in order to enable auditors to make the most of the new, COSO-based planning tool, improving the emphasis on more strategic, governance and fraud risks.	<p>Within the Programme of continuous education of internal auditors, Ministry of Finance in cooperation with Human Resource and Management Agency organized and delivered following trainings:</p> <p>a) in April 2022, trainings on topic "Methodology for conducting assurance engagements, with practical and detailed explanation of each engagement phase with special emphasis on planning phase through case study" were held for four group of internal auditors (attendance sheets attached)</p> <p>b) in November 2022, trainings on topic "Drafting of strategic and annual internal audit plans and managing internal audit staff to achievement of public sector objectives" were held for four groups of internal auditors. (attendance sheets attached)</p> <p>We would like to note that this kind/type of practical support through workshops within the Programme of continuous education and even through regular work is and will be regularly provided to all internal auditors in public sector.</p>	<p>Status: Implemented</p> <p>Based on auditees' response and evidences enclosed, we determined that significant number of internal auditors in public sector attended trainings and workshops with different topics. Some of trainings were related to strategic and annual internal audit planning and planning phase of each engagement. CHU undertook activities to enable internal auditors to improve their knowledge through Programme of continuous education and provide regular support to internal auditor in their work.</p> <p>We concentrated our attention on attendance of auditor of centralised IAU for EU funds to mentioned workshops and trainings and concluded that in previous period was satisfactory.</p> <p>Having in mind, that previous status was implemented preliminary as well as facts given in point 1. of this Report we consider this recommendation implemented and finding closed.</p> <p>However, this issue will be in scope of audit of AA in the upcoming period with regards to Centralised IAU responsible for audit of EU funds.</p>
IAC3	<p>Quality assurance and improvement</p> <p>Priority level: High</p> <p>Body/-ies concerned by the finding: Ministries and the CHU</p> <p>Other than supervision of audit assignments, there is no quality</p>	Develop a quality assurance and improvement programme that covers both internal and external assessments of the quality of the IACs' work. It must include arrangements for full reporting of the results and	Based on the latest prepared Consolidated report on governance and internal controls in public sector for 2022 (attached IAC1), 77.4% of internal audit units prepared Quality Assurance and Improvement Program which includes requirements for both internal and external assessments.	<p>Status: Implemented</p> <p>According to the auditees' response and information provided in Consolidated report on governance and internal controls in public sector for 2022, we found that improvements have been made in this field and respective percentage of IAUs prepared Quality Assurance and Improvement Program.</p>

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	<p>assurance and improvement programme in place. Satisfaction questionnaires have been developed but have yet to be used.</p>	<p>monitoring of subsequent action plans.</p>	<p>In November 2022, within the project "Improvement of Budgeting System, Multi-annual Budget Framework and Public Internal Financial Control System" workshop on topic "Mutual external assessment of internal audit in public sector" was held for 45 internal auditors. (attendance sheets attached). During the workshop, internal auditors were introduced with Methodology for conducting mutual external assessment of internal audit.</p> <p>In December 2022, within Programme of continuous education of internal auditors, Ministry of Finance in cooperation with Human Resource and Management Agency organized and delivered trainings on topic "Governing internal audit through practical implementation of Quality Assurance and Improvement Program and quality review of internal audit work including measurement of performance of internal audit" for four group of internal auditors (attendance sheets attached). This issue will also be targeted in the upcoming period.</p>	<p>During 2022 workshops related to Quality Assurance and Improvement Program of internal audit had been conducted.</p> <p>Taking into account that previous status was implemented preliminary and facts given in point 1. of this Report, we consider this recommendation implemented and finding closed.</p> <p>However, Quality Assurance and Improvement Program and use of checklists for self assessment in practise will be in the scope of audit of AA in upcoming period regarding this centralised IAU for EU Funds.</p>
<p>IAC4</p>	<p>Strategic risk-based planning</p> <p>Priority level: High</p> <p>Body/-ies concerned by the finding: Ministries and the CHU</p> <p>Strategic (three year) and annual audit plans are developed by identifying the audit universe and then risk appraising it across a number of dimensions, in a way that is common to many internal audit functions. However, the identification of the audit universe is system/process-driven and a large number of operational activities are included. It does not rather start by</p>	<p>Shift the focus of strategic (annual) audit planning to consider each Ministry's key business objectives and risks for that year.</p>	<p>Please see IAC 2 response</p>	<p>Status: Implemented</p> <p>According to the auditees' response and obtained documentation, we consider that internal auditors had numerous trainings with focus on strategic and annual planning in the previous period within the Programme of continuous education of internal auditors.</p> <p>Enclosed Annual Audit Plan of centralised IAU for EU Funds is based on key objectives and risks of IPA II structure in Montenegro.</p> <p>We consider that recommendation is implemented and finding is closed.</p>

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	<p>considering Ministries' strategies, objectives and risks, or trends and emerging issues. This would result in fewer, higher-level but strategically important areas being included in the audit universe. Such a shift in focus would probably result in a more fluid audit plan and planning over a three-year period might no longer be appropriate.</p>			
<p>IAC5</p>	<p>Recruitment and retention.</p> <p>Priority level: High Body/-ies concerned by the finding: Ministries</p> <p>There is an acknowledged problem with recruiting and retaining audit staff and many of the audit teams reviewed have carried vacancies for some time. Audit plans are developed around available resources and the limitations placed on potential coverage by vacancies are not always made clear to senior management. The previous experience required of auditors limits recruitment to those who have either an economics or a legal background, greatly reducing both the pool of potential candidates and the skills, knowledge and experience that are brought into internal audit. Some auditors have poor or no English, making them ineffective in carrying out IPA audits. The auditor survey (Annex G, question 36.29) reiterated the concerns expressed in interviews regarding resources.</p>	<p>Highlight to senior management the limitations placed on audit plans because of the lack of resources.</p> <p>Consider alternative employment models, for example, short-term secondments as part of broader management training.</p> <p>Broaden the educational requirements/skill sets for auditors, focussing on their ability to audit rather than on qualifications. Appointing auditors with project management skills would be a useful resource for IPA auditing.</p> <p>Increase English language skills in audit teams so that those working on IPA issues are able to do so effectively.</p>	<p>Issues from paragraphs 1, 2 and 3 of the recommendation have been already discussed with senior management and in certain extend addressed. CHU continue to organise certification programme for internal auditors each year so the number of certified internal auditors in public sector is increasing every year. Also, we make efforts to enhance internal audit function and, in this regard, we develop appropriate programmes of continuous education of internal auditors and provide useful trainings and education. Additionally, we made efforts to ensure for internal auditors to have top-up salaries.</p> <p>Since January 2023, Centralised Internal Audit Unit responsible for audit of EU funds has been fulfilled with one more position of senior internal auditor (Decision on appointment of senior internal auditor attached) and now Unit has three internal auditors appointed including the Head of the Unit. All three auditors are fluent in English and specialized on IPA regulation and procedures. The Head of the Unit and superior internal auditor are certified, while newly appointed senior internal auditor is currently in the process of certification.</p>	<p>Status: Partially Implemented</p> <p>New deadline: II Q 2024</p> <p>On the basis of auditees' response and obtained documentation we can conclude that Centralised Internal Audit Unit responsible for audit of EU funds is functioning efficiently.</p> <p>Unit has three internal auditors, including Head of the Unit, and all of them are fluent in English and specialized on IPA regulation and procedures. Additionally, internal auditors are attending trainings within programme of continuous education of internal auditors. However, certification of senior internal auditor is still on going so we will we consider that the recommendation is partially implemented.</p> <p>We will monitor the full implementation of this recommendation in upcoming period.</p> <p>Also, this issue will be in scope of the audit of AA in upcoming period regarding centralised IAU for EU Funds.</p>

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			<p>During the 2022, the Unit conducted five audits and gave 21 recommendations. Annual plan for 2023 was prepared and adopted. (Annual plan for 2023 attached) According to information which we gathered, by the end of September 2023 three audits have been fully conducted and one audit is in progress.</p> <p>We would like to emphasise that from September 2023 all internal auditors in public sector have the possibility for top-up salaries up to 30% according to Decision on top-up salaries which was adopted by the Government of Montenegro. CHU believes that introducing this measure will motivate internal auditors and one of appropriate solutions for retention policy. (Decision on top-up salaries attached)</p>	
IAC6	<p>Policies and procedures Priority level: High Body/-ies concerned by the finding: The CHU</p> <p>A new method of planning individual audits (which uses the COSO model to identify risks) has recently been introduced into the internal audit function. This more structured approach is welcome, as it has increased the focus on risk but only a few audits have been undertaken using this methodology (and none of these are IPA audits). Auditors are still learning how to apply the approach: whilst some auditors are confident, others want more support and guidance on its practical implementation. The audits that we reviewed that had used the new methodology only identified operational risks and did not reflect the emphasis that COSO and the Standards</p>	See IAC 2	Please see IAC 2 response	See proposal of status (conclusion) for IAC2.

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	<p>place on strategic matters, especially governance, risk management and controls. In particular, audits should support improvement of governance and risk management processes, including:</p> <ul style="list-style-type: none"> • Making strategic and operational decisions; • Overseeing risk management and control; • Promoting appropriate ethics and values within the organisation; • Ensuring effective organisational performance management and accountability; • Communicating risk and control information; and • Co-ordinating activities of the board, auditors, other assurance providers and management. 			
<p>IAC7</p>	<p>Improving Governance Arrangements. Priority level: High Body/-ies concerned by the finding: Ministries</p> <p>None of the IACs reviewed audited governance arrangements, including for decision making, information technology, ethics and values or performance management. There were no reviews of risk management arrangements. Both auditors and their clients were of the opinion that their work in the areas of risk management and ethics were sufficient (Annex G, questions 24.20, 25.21, 26.22 and Annex H, questions 20.17 and 21.18). The survey identified that neither</p>	<ul style="list-style-type: none"> • Develop annual audit plans that address the governance processes for: • Making strategic and operational decisions; • Overseeing risk management and control (see IAC 8); • Promoting appropriate ethics and values within the organisation, including whistleblowing arrangements; 	<p>In May 2022, Ministry of Finance in cooperation with SIGMA organized two days seminar on audit of information technologies for internal auditors. Participants were internal auditors appointed in centralized IT audit unit of Ministry of Public Administration and Centralised Internal Audit Unit responsible for audit of EU funds. (Agenda of seminar attached).</p> <p>In May 2022, within the Programme of continuous education of internal auditors, Ministry of Finance in cooperation with Human Resource and Management Agency organized and delivered trainings on topic "Organizational independence of internal audit, objectivity of internal auditors, due professional care and ethics, IIA Global competency framework with</p>	<p>Status: Partially implemented</p> <p>New priority level: Medium New deadline: II Q 2024</p> <p>Based on the auditees' response and obtained documentation it is evident that issues in the finding have been addressed in trainings and seminars within Programme of continuous education of internal auditors. At this moment we consider that priority level should be decreased from high to medium.</p> <p>Taking this into account and facts given in point 1. of this Report, in our opinion these issues need continuous attention in the future</p> <p>Therefore, we will monitor the implementation of recommendation regarding centralised IAU for EU Funds.</p>

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	<p>auditors nor their non-IPA clients were sure of the whistleblowing arrangements (Annex G, question 43.36 and Annex H, question 32.26 respectively)</p>	<ul style="list-style-type: none"> Ensuring effective organisational performance management and accountability; and Assessing the information technology governance of the organisation. <p>As the audit approach matures and expands, ensure that risk and control information is appropriately communicated across ministries and departments.</p>	<p>special emphasis on risk management " for four group of internal auditors. (Attendance sheets attached)</p> <p>In September 2022, Ministry of Finance in cooperation with SIGMA organized two days seminar on development of soft skills of internal auditors. (Attendance sheets attached)</p> <p>Within the Programme of continuous education of internal auditors for 2023, most of these topics will be covered by the end of the year.</p>	
<p>IAC8</p>	<p>Auditing risk management.</p> <p>Priority level: High Body/-ies concerned by the finding: Ministries</p> <p>The immaturity of risk management arrangements and the compliance-based approach to audits means that only risks and controls relating to financial and operational information, safeguarding of assets and compliance with laws are routinely examined during audits. As a result, the biggest risks to each Ministry may not be identified by management and the management of the risks that are identified is not challenged or evaluated by audit. In the survey, however, auditors and their clients were of the opinion that their work on risk management was effective (see IAC 7).</p>	<p>IACs to advocate (and support) the development of a plan to increase risk maturity in Ministries to enable them to recognise the strategic and operational risks that they face, including fraud risks, prioritise them and take proportionate and proactive action to manage them.</p> <p>As risk maturity increases, carry out audits of risk management arrangements (the framework and governance processes, understanding and implementation) in a way that is proportionate to those arrangements.</p>	<p>This finding was further addressed by organizing workshop "Methodology for conducting assurance engagements, with practical and detailed explanation of each engagement phase with special emphasis on planning phase through case study" (please see IAC 2) and workshop "Organizational independence of internal audit, objectivity of internal auditors, due professional care and ethics, IIA Global competency framework with special emphasis on risk management " (please see IAC7).</p> <p>In September 2023, within the Programme of continuous education of internal auditors, Ministry of Finance in cooperation with Human Resource and Management Agency organized and delivered trainings on topic "Managing the internal audit function and role of the internal audit in risk management" for two group of internal auditors at central level (Attendance sheets attached).</p> <p>In the upcoming period CHU will also adress these issues through the continuous education of internal auditors as well as</p>	<p>Status: Partially implemented</p> <p>New priority level: Medium New deadline: II Q 2024</p> <p>On basis of auditees' response and acquired documentation, it is evident that progress has been made in addressing this finding.</p> <p>Since Centralised IAU for EU Funds has enclosed Annual Audit Plan that considered fraud risks and governance processes, we consider this finding mainly closed and propose reducing the priority level from high to medium.</p> <p>We will monitor the implementation of this recommendation through reviewing the annual audit plan and audit reports of IAU for EU Funds in the upcoming period.</p>

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			through projects for which we sent proposals.	
IAC9	<p>Planning audit assignments</p> <p>Priority level: High Body/-ies concerned by the finding: Ministries and the CHU</p> <p>The new, COSO-based approach to audit planning and performance has improved the rigour of planning for individual audit assignments but, as noted elsewhere, the focus is on compliance risks rather than on risks to strategies and objectives.</p>	<p>Refer to the relevant Ministry strategies, objectives and risks when planning audit engagements. (This will be facilitated by considering these matters as part of annual audit planning – see IAC 4)</p>	<p>In April 2022, within Programme of continuous education of internal auditors, Ministry of Finance in cooperation with Human Resource and Management Agency organized and delivered workshop on topic "Methodology for conducting assurance engagements, with practical and detailed explanation of each engagement phase with special emphasis on planning phase through case study". Workshops were held for four group of internal auditors (attendance sheets attached in IAC2).</p> <p>Also, in April 2023, within Programme of continuous education of internal auditors, Ministry of Finance in cooperation with Human Resource and Management Agency organized and delivered workshop on topic "Assurance engagement with special emphasis on quality of audit evidence". Workshops were held for four group of internal auditors (attendance sheets attached). This part will also be the subject of continuous improvements in the upcoming period.</p>	<p>Status: Partially implemented</p> <p>New deadline: II Q 2024</p> <p>On the basis of documentation gathered and information provided by auditees', we concluded that this finding was properly treated during the previous period. Certain trainings and workshops related to planning audit engagement were organised.</p> <p>We will monitor the implementation of recommendation through reviewing the annual audit plans and audit reports regarding centralise IAU for EU Funds in the upcoming period.</p>
IAC 11	<p>Roles beyond internal auditing</p> <p>Priority level: Medium Revised Risk Level: Low Body/-ies concerned by the finding: Ministries</p> <p>One CAE has provided significant support to the Ministry in developing risk management arrangements and risk registers. Neither the CAE nor the ministry recognised the potential conflict of interest but undertaking this work would make it difficult for audit to carry out a review of risk management</p>	<p>Put in place arrangements that safeguard audit's independence and objectivity should they provide advice and support in areas such as risk management. This could be managed by asking another IAC to audit such activities. Any arrangements should be formalised in the Charter and/or the annual audit plan. The audit manual should include further guidance on managing these potential</p>	<p>This finding was addressed through numerous trainings organized in cooperation of Ministry of Finance and Human Resource Management Agency within Programme of continuous education of internal auditors. (attendance sheets attached in previous IACs).</p>	<p>Status: Partially implemented</p> <p>New deadline: II Q 2024</p> <p>Based on auditees' response and obtained documentation, it is evident that some progress has been made in addressing this finding. However, in our opinion these issues need more and continuous attention in the future. We will monitor the implementation of recommendation.</p>

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	arrangements.	conflicts of interest.		
IAC 12	<p>Keeping senior management informed</p> <p>Priority level: Medium</p> <p>Body/-ies concerned by the finding: Ministries</p> <p>While some heads of audit regularly report to senior management and the Minister, and sit on the senior management team, others do not. In the latter cases, auditors do not hear of emerging issues that might change their audit plans and senior managers are not kept informed of matters coming out of audits. The value of these discussions will increase as auditors take a more strategic and risk-based approach to their audit work. The client survey raised relationships with senior managements as an area for improvement (Annex H, question 39.33)</p> <p>All auditors provide an annual audit report, which is submitted to the Minister. However, these reports do not include many of the required areas.</p>	<p>The head of audit should report to senior management regularly and, as a minimum, discuss the audit plan for the coming year and highlight the findings of the previous year's audit work.</p> <p>Revise the annual audit report to include:</p> <ul style="list-style-type: none"> • The purpose of the audit function, its authority and responsibilities; • The results of the quality assessment and action plan; • Significant risks identified during audits, including fraud risks and governance issues; and • Resource requirements and the limitations placed on plans as a consequence of vacancies. 	Please see IAC 1 and IAC 2 response	See proposal of status and comments for IAC 1.
IAC 13	<p>Planning audit assignments</p> <p>Priority level: Medium</p> <p>Body/-ies concerned by the finding: Ministries and the CHU</p> <p>While all auditors emphasised, the importance placed on adding value in their work through making recommendations for improvements, this was not routinely referenced in their audit planning and reporting.</p>	<p>Ensure that opportunities to add value through identifying potential improvements to governance, risk management and control processes are included in audit planning</p> <p>Allocate resources to audits</p>	<p>This finding was further addressed by organizing workshop "Organizational independence of internal audit, objectivity of internal auditors, due professional care and ethics, IIA Global competency framework with special emphasis on risk management " (please see IAC7) and "Methodology for conducting assurance engagements, with practical and detailed explanation of each engagement phase with special emphasis on planning phase through case study". (please see IAC 2)</p> <p>In IV quarter of 2022, within the project</p>	<p>Status: Partially implemented</p> <p>New deadline: II Q 2024</p> <p>Based on auditees' response and obtained documentation, it is evident that some progress has been made in addressing this finding. Taking this into account, we consider this finding mainly closed and propose reducing the priority level from medium to low.</p> <p>However, we will monitor the implementation of the recommendation through reviewing the annual audit plans (and supporting documents) as well as audit engagements</p>

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	<p>Several auditors said that adding value was one of the things that they most enjoyed about their audit work (Annex G, question 52.45) and clients mentioned that auditors did indeed add value (Annex H, question 4.3)</p> <p>Each audit is initially assumed to take 30 days. Some audit functions adjust this allowance according to the level of assumed risk of the audited activity (20 days for a low risk audit and 40 days for a high-risk audit). However, there is no consideration of the days that are actually needed to carry out an audit; instead audits are planned to fit this initial allocation.</p>	<p>according to how much time is necessary to adequately achieve its objectives.</p>	<p>"Improvement of Budgeting System, Multi-annual Budget Framework and Public Internal Financial Control System" Ministry of Finance organised three pilot audits in three pilot institutions (Ministry of Finance, Ministry of Economic Development and Tourism and Ministry of Capital Investments) on managerial accountability. (Attached are final reports of pilot audits)</p> <p>A reference model (audit criteria) was developed in cooperation with the CHU and the audit team members. Also training was provided on data quality and on reporting (soft skills training).</p> <p>CHU will further address this topic within the continuous education programmes and through projects which we proposed.</p>	<p>of centralised IAU for EU Funds, in the upcoming period.</p>
IAC 15	<p>Audit opinions</p> <p>Priority level: Low</p> <p>Body/-ies concerned by the finding: Ministries and the CHU</p> <p>Audit reports do include an opinion, but this is hidden in the text. In addition, the opinions are not formalised, for example by having four levels of opinion with clear definitions for each level.</p>	<p>Clearly define different levels of audit opinion, discussing and agreeing this with senior management. Ensure that the opinion is given adequate prominence in audit reports.</p>	<p>This finding was addressed through numerous trainings organized in cooperation of Ministry of Finance and Human Resource Management Agency within Programme of continuous education of internal auditors. (attendance sheets attached in previous IACs)</p>	<p>Status: Implemented</p> <p>Having in mind, that previous status was implemented preliminary and facts given in point 1. of this Report we consider this recommendation implemented and finding closed.</p> <p>This issue will be in scope of audits of AA in upcoming period regarding this centralised IAU for EU Funds.</p>
IAC 16	<p>Recognising satisfactory performance</p> <p>Priority level: Low</p> <p>Body/-ies concerned by the finding: Ministries</p> <p>Reports are written on an exception basis and satisfactory performance is not acknowledged.</p>	<p>Ensure that satisfactory performance is acknowledged in audit reports. This will be easier if reports are risk-based as a risk rating can then be used.</p>	<p>This finding was addressed through numerous trainings organized in cooperation of Ministry of Finance and Human Resource Management Agency within Programme of continuous education of internal auditors. (attendance sheets attached in previous IACs)</p>	<p>Status: Partially implemented</p> <p>New deadline: II Q 2024</p> <p>Based on auditees' response and obtained documentation, it is evident that some progress has been made in addressing this finding. We will monitor the implementation of recommendation in the upcoming period regarding centralised IAU for EU Funds.</p>

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<p>IAC 17</p>	<p>Claiming conformity with the International Standards.</p> <p>Priority level: Low</p> <p>Body/-ies concerned by the finding: Ministries and the CHU</p> <p>The conformance statement is not used in audit reports but it is included in the Charter and in self-assessments that have been reported.</p>	<p>Do not use the conformity statement without a quality assurance and improvement programme. Instead use a statement to recognise the importance of the international standards in carrying out internal audit work.</p>	<p>This finding was addressed through numerous trainings organized in cooperation of Ministry of Finance and Human Resource Management Agency within Programme of continuous education of internal auditors. (attendance sheets attached in previous IACs)</p>	<p>Status: Implemented</p> <p>Having in mind, that previous status was implemented preliminary and facts given in point 1. of this Report we consider this recommendation implemented and finding closed.</p> <p>However, this issue will be in scope of audits of AA in upcoming period regarding this centralised IAU for EU Funds.</p>
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Table 12

As a result of this follow up, AA’s proposal of status is that 8 out of 15 total findings should be closed, while 7 findings remain open (recommendations had been partially implemented).

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

Not applicable.

8. OTHER INFORMATION

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

Not applicable.

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

Not applicable.

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

Not applicable.

9. OVERALL LEVEL OF ASSURANCE

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

Bearing in mind that no expenditure was declared to EC, i.e. the NAO did not submit any Request for Funds (including Declaration of expenditure) to the EC, and the fact that AA was not in a position to carry out an audit of operations/samples of transactions, the assurance on the proper functioning of the management and control system is based on the results of the system audits (system assessment – please see section 4 above). As a result of the system audits, the management, control and supervision system established for IPA II 2015-2017 SOPEES is assessed as „works, but some improvement(s) are needed “. Therefore, it is appropriate to issue an unqualified opinion on the proper functioning of the MCSS and disclaimer of opinion on the legality and regularity of expenditure.

The assurance on the accounts is based on the results of the audit of accounts as described in section 6.3 of this AAAR, adequately documented check lists and working papers related to the Audit of Accounts.

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 for amounts Open pre-financing, Recovery context and Total Disbursement Amount.

Starting from the fact that columns *total amount disbursed*, *total open prefinancing and recovery context* did not have an impact on the cost recognized presented in AFR (which will be declared to EC), we consider that it is appropriate to conclude that the financial statements give a true and fair view. Also, the audit work carried out does not put in doubt the assertions made in the management declaration. Consequently, for the period 1st January-31st December 2023 we will issue an unqualified opinion on reliability of the annual financial reports or statements/annual accounts.

9.2. Analysis of significance of total error rate in a case when it is above the materiality level

Not applicable.

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

The auditees announced an improvement in its responses to the identified findings and recommendations in the System Audit Reports except AA's finding and recommendation related to ineligible cost in the amount 1,086.30€ (Eu part) and 191,70€ (NC). The necessary corrective actions to be taken regarding the deficiencies identified during the system audits are presented in Chapter 4 of this report. The further implementation of the recommendations will be monitored in the following period.

9.4. Assessment of any relevant subsequent adjustments made and corrective actions taken

During contradictory procedure (System audit Report No: 3011-1-06-263/4) auditees CFCU and NFD did not accept AA's finding and recommendation related to ineligible cost in the amount 1,086.30€ (Eu part) and 191,70€ (NC) and those amounts are not excluded from AFR for 2023. The EU contribution affected is thus 1,086.00€ (0.008%) of total cost recognized amount (13,478,977.88€) reported in the AFR for 2023. These costs have not been declared to EC through Declaration of expenditure (within Request for Funds).

During the follow up performed within audit of accounts, we determined that financial correction related to findings from Audit of operations for 2022 (Report No: 3011-2-06-181, date: 6th March 2023) was properly treated. Amount of ineligible expenditure was excluded from cost recognized in AFR for 2023.

Therefore, all financial correction must be included in next-Final declaration/financial reports.

10. TABLE FOR DECLARED EXPENDITURE AND SAMPLE AUDITS

Fund	Reference (CCI)	Programme	A	B		C	D	E		F	G	H=F-G	GI	JH
			Expenditure declared to the Commission in reference to the year	Expenditure in reference to the financial year audited for the random sample		Total number of units in the population	Number of sampling units for the random sample	Amount and percentage (error rate) of irregular expenditure in random sample		Total projected error rate	Corrections implemented as a result of the total error rate	Residual total error rate	Other expenditure audited	Amount of irregular expenditure in other expenditure sample
				Amount	%			Amount	%	%				
IPA	C(2015) 9051 09/12/2015 CRIS decision No. 2015/037-895	Multi-annual action programme for Montenegro on Employment, Education and Social policies	/	/	/	/	/	/	/	/	/	/	/	/

ⁱ Some parts of the report are covered for IT security reasons