



**MONTENEGRO  
AUDIT AUTHORITY**

Nº: 3011-4-06-141

Date: 15<sup>th</sup> March, 2022

**ANNUAL AUDIT ACTIVITY REPORT**

**OF THE AUDIT AUTHORITY FOR**

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

**FOR THE PERIOD**

**1<sup>st</sup> JANUARY 2021 – 31<sup>st</sup> DECEMBER 2021**

Podgorica, March 2022

## Contents

<b>1. INTRODUCTION</b> .....	7
<b>1.1 Details of the responsible Audit Authority and other bodies that have been involved in preparing the Report</b> .....	7
<b>1.2 Reference period (i.e. the year) and the scope of the audits (including the expenditure declared to the Commission for the year concerned)</b> .....	7
<b>1.3 Identification of the sector/policy area(s) covered by the report and of its/their operating structure and management structure</b> .....	9
<b>1.4 Description of the steps taken to prepare the report and to draw the audit opinion</b> .....	9
<b>2. SUBSTANTIAL CHANGES IN MANAGEMENT AND CONTROL SYSTEMS</b> .....	10
<b>2.1 Details of any substantial changes in the management and control systems, and confirmation of its compliance with Article 7 of Commission Implementing Regulation (EU) No 447/2014 based on the audit work carried out by the audit authority under Article 12 of Commission Implementing Regulation (EU) No 447/2014</b> .....	10
<b>2.1.1 Changes in the MCS in Montenegro since last Annual Audit Activity Report</b> .....	10
<b>2.1.2 Changes in the MCS in Albania since last Annual Audit Activity Report</b> .....	10
<b>2.2 The dates from which these changes apply, the dates of notification of the changes to the audit authority, as well as the impact of these changes on the audit work are to be indicated</b> .....	11
<b>3. CHANGES TO THE AUDIT STRATEGY</b> .....	11
<b>4. SYSTEMS AUDITS</b> .....	11
<b>4.1. Details of the bodies that have carried out system audit</b> .....	11
<b>4.2 Summary table of the audits carried out, with the indication of the authorities/bodies audited, the assessment of the key requirements for each body, issues covered and comparison to the audit planning</b> .....	12
<b>4.3 Description of the basis for selection of the audits in the context of the audit strategy</b> .....	13
<b>4.4 Description of the principal findings and conclusions drawn from the audit work for the management and control system and their functioning</b> .....	14
<b>4.4.1 Principal Findings and recommendations related to MCSS</b> .....	16
<b>4.5 Description of specific deficiencies related to the management of financial instruments</b> .....	24
<b>4.6 Level of assurance obtained following the system audit (low/average/high) and jurisdiction</b> .	24
<b>5. AUDITS OF SAMPLES OF TRANSACTIONS</b> .....	24
<b>5.1 Authorities/bodies that carried out the sample audits, including the audit authority</b> .....	24
<b>5.2 Description of the sampling methodology applied and information whether the methodology is in accordance with the audit strategy</b> .....	24
<b>5.3 Indication of the parameters used for statistical sampling, materiality level, the confidence level, the expected error rate applied, calculation of the required sample and the interval,</b>	

<b>sampling unit, number of sampling units in the population, number of sampling units actually audited.....</b>	<b>25</b>
<b>5.4 Reconciliation of the expenditure declared to the Commission in the financial year to the sampled expenditure. Reconciling items include negative items where financial corrections have been made in the financial year, as well as differences between amounts declared in euro and amounts in national currency, where relevant .....</b>	<b>25</b>
<b>5.5 Where there are negative items, confirmation that they have been treated as a separate population.....</b>	<b>25</b>
<b>5.6 In case of the use of non-statistical sampling, indicate the reasons for using the method in line with Article 12 (2) of Commission Implementing Regulation (EU) No 447/2014, the percentage of actions/operations / expenditure covered through audits, the steps taken to ensure randomness of the sample (and its representativeness) and to ensure a sufficient size of the sample enabling the audit authority to draw up a valid audit opinion. A projected error rate is calculated also in case of non-statistical sampling.....</b>	<b>25</b>
<b>5.7 Summary table (see below), broken down where applicable by programme indicating the eligible expenditure declared to the Commission during the year, the amount of expenditure audited, and the percentage of expenditure audited in relation to total eligible expenditure declared to the Commission for the last year, as well as the total number of sampling units in the population and the number of sampling units actually audited for the random sample. Information relating to the random statistical sample is distinguished from that related to other samples if applicable (e.g. risk-based complementary samples).....</b>	<b>25</b>
<b>5.8 Analysis of the principal results of the audits (sample items selected and audited, together with the respective amount and types of error by operation) as well as the nature of errors found, root causes and corrective measures proposed, including mitigating these errors in the future. .</b>	<b>25</b>
<b>5.9 Details of the most likely error rate (total error rate) and, in case of statistical sampling method, the upper limit of the error rate as a result of the audits of operations, and the amount of irregular expenditure detected and the error rate resulting from the random sample audited....</b>	<b>26</b>
<b>5.10 Compare the total error rate with the set materiality level, in order to ascertain if the population is materially misstated or not. If so, analyse the significance of the total error rate for the audit opinion and report the recommended corrective measures.....</b>	<b>26</b>
<b>5.11 Corrections relating to the current year implemented by the operating structure/management structure before submitting the final declaration of expenditure and financial statements to the Commission, and resulting from the audits of operations, including flat rate or extrapolated corrections.....</b>	<b>26</b>
<b>5.12 Residual total error rate following the implementation of the above-mentioned corrections and significance for the audit opinion.....</b>	<b>26</b>
<b>5.13 Information on the results of the audit of the complementary (e.g. risk based) sample, if any. ....</b>	<b>26</b>
<b>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. ....</b>	<b>26</b>

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. ....	26
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. ....	26
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. ....	27
5.18 Conclusions drawn from the results of the audits with regard to the effectiveness of the management and control system. ....	27
<b>6. AUDITS OF THE ANNUAL FINANCIAL REPORTS OR STATEMENTS/ANNUAL ACCOUNTS</b> .....	27
6.1 Indication of the authorities/bodies that have carried out audits of the annual financial reports or statements/annual accounts. ....	27
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. ....	27
6.3 Indication of the conclusions drawn from the results of the audits in regard to the completeness, accuracy and veracity of the declaration of expenditure and financial statements, including an indication on the financial corrections made and reflected in the declaration of expenditure and financial statements as a follow-up to the results of the audit on transactions/operations. ....	34
6.4 Indication of whether any problems identified were considered to be systemic in nature, and the measures taken. ....	34
<b>7. FOLLOW-UP OF PREVIOUS YEARS' AUDIT ACTIVITY</b> .....	35
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. ....	35
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. ....	42
<b>8. OTHER INFORMATION</b> .....	42
8.1 Information on reported fraud and suspicions of fraud, together with the measures taken. ...	42
8.2 Subsequent events occurred after the submission of the declaration of expenditure and financial statements and before the transmission of the annual audit activity report under Art. 12 (3) of Commission Implementing Regulation (EU) No 447/2014 to the Commission and considered when establishing the level of assurance and opinion by the audit authority. ....	42
8.3 Any other information that the audit authority considers relevant and important to communicate to the Commission, in particular to justify the audit opinion, is reported in this section. ....	43

<b>9. OVERALL LEVEL OF ASSURANCE .....</b>	<b>43</b>
<b>9.1 Explanation on how the overall level of assurance on the proper functioning of the management and control system is obtained from the combination of the results of the system audits and audits of operations.....</b>	<b>43</b>
<b>9.2 Where the total error rate relating to the expenditure declared in the payment claims in a year is above the materiality level, analyse its significance and assess whether this indicates a serious deficiency (ies) in the functioning of the relevant management and control system during the year. Where relevant, take also account of the results of other national or Union audit work carried out in relation to the year.....</b>	<b>43</b>
<b>9.3 Assessment of the corrective action necessary both from a system and financial perspective.....</b>	<b>43</b>
<b>9.4 Assessment of any relevant subsequent adjustments made and corrective actions taken such as financial corrections included in the declaration of expenditure and financial statements and assess the residual error rate and the need for any additional corrective measures necessary both from a system and financial perspective. ....</b>	<b>44</b>
<b>10. TABLE FOR DECLARED EXPENDITURE AND SAMPLE AUDITS .....</b>	<b>45</b>

## List of abbreviation

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

## 1. INTRODUCTION

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

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

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

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

The Audit Authority is responsible for verifying:

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

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

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

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

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

Pursuant to Article 3(f) of the Framework Agreement between Montenegro and the European Commission on the arrangements for implementation of Union financial assistance to Montenegro under the Instrument for Pre-accession Assistance (IPA II), reference period for this Annual Audit Activity Report is financial year and covers the period from 1<sup>st</sup> January 2021 to 31<sup>st</sup> December 2021.

In the period June 2021–December 2021 Audit Authority performed system audit of functioning of Management, Control and Supervision System established for implementation of IPA II 2014-2020 CBC Programme "Montenegro-Albania". Also, the follow up of the findings and recommendations given in the course of previous audits was included in the system audit engagement.

Based on level of implementation of IPA II 2014-2020 CBC Programme "Montenegro-Albania", as well as in accordance with adopted Audit Strategy for period 2021-2023 and results of performed risk assessment, the following bodies being part of the management, control and supervision system and key requirements were covered by the system audit:

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

In the period December 2021 – January 2022 the Audit Authority performed follow-up of the findings and recommendations given in the Final reports of performed audits in period 2017-2020. Follow-up was performed as separate activity before issuing the AAAR and the AAO.

Bearing in mind that no expenditures were declared during the year 2021, the Audit Authority has not been in position to perform audit of transactions/operations regarding the financial year 2021.

At the end of February and beginning of March 2022, Audit Authority performed audit of the annual financial reports for the year 2021 and assessment of the Management declaration for the respective Programme.

NAO submitted Annual Financial Report for 2021 on 15<sup>th</sup> February 2022.

The amounts declared in the Annual Financial Report for 2021 is presented in the table below:

Programme Reference	Financing Agreement contract number	Total Amount Disbursed		Total Costs Recognised		Total Open Pre-financing		Bank Balances (EU contribution)	Forecast disbursements
		EU contribution	Other sources	EU contribution	Other sources	EU contribution	Other sources		Next 12 months
CBC MNE-ALB 2014	2014/037-593	1.051.853,92	0,00	692.867,47	125.066,78	358.986,45	0,00	114.064,45	71.885,83
CBC MNE-ALB 2015	2015/ 038-158	1.446.217,57	0,00	1.297.254,09	231.327,86	148.963,48	0,00	140.241,44	90.288,59
CBC MNE-ALB 2016	2016/038-174	954.546,08	0,00	45.110,33	7.966,88	909.435,75	0,00	405.453,92	490.280,53
CBC MNE-ALB 2017	2017/ 038-175	535.857,62	0,00	118.606,60	20.930,57	417.251,02	0,00	416.142,38	437.092,14
CBC MNE-ALB 2018	2018/041-468	0,00	0,00	0,00	0,00	0,00	0,00	0,00	1.360.000,00
CBC MNE-ALB 2019	2019/041-470	0,00	0,00	0,00	0,00	0,00	0,00	0,00	1.360.000,00
CBC MNE-ALB 2020	2020/041-471	0,00	0,00	0,00	0,00	0,00	0,00	0,00	1.224.000,00

During the audit AA verified whether the Annual Financial Reports/Financial Statements give a true and fair view as well as the completeness, accuracy and veracity of the annual financial reports or statements and the underlying annual accounts. The audit of accounts in respect of accounting year 2021 has been carried out in the second half of February and beginning of March 2022.

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

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

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

- National IPA Coordinators of both countries;
- The National Authorising Officer of Montenegro;
- The Management Structure of Montenegro (National Fund and NAO Support Office);
- The Operating Structure (OS) of Montenegro composed of: Head of the Operating Structure (Montenegrin HOS), Cross-border Cooperation Body (Montenegrin CBC Body) and Contracting Authority (CA/CFCU). The first two are located in the Department for European Territorial Cooperation within the Cabinet of Prime Minister of Montenegro and the Contracting Authority in the Montenegrin Ministry of Finance and Social Welfare - Directorate for Finance and Contracting of the EU Assistance Funds (CFCU);
- the Operating Structure (OS) of Albania composed of: Head of the Operating Structure (AL HOS) and Cross-border Cooperation Body (AL CBC Body) which are located in the Ministry for Europe and Foreign Affairs;
- Control Body (AL CB) placed in the Ministry of Finance and Economy of Albania.

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

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

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

With a view to drawing up an audit opinion, Audit Authority assessed results of audit activities from the audits of management, control and supervision system performed during 2021, result of follow up of the findings and recommendations, results of audit of annual financial reports for 2021 and assessed the consistency of the management declaration with regard to performed audit work.

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

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

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

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

During 2021, the NAO informed the European Commission and Audit Authority about substantial and planned changes in the system. The following changes occurred in 2021:

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

##### **– Deputy Chief Negotiator – National IPA Coordinator**

On the session held on 30<sup>th</sup> July 2021, the Government of Montenegro gave its consent to the proposal regarding the appointment of Mr Bojan Vujović on the position of the Deputy Chief Negotiator – National IPA Coordinator. Mr Vujović performed the function of Head of Operating Structure for the CBC Programmes within the Office for European Integration.

NAO informed European Commission on this personal change through NAO AMD Assessment Report on functioning of MCS for the year 2021 submitted to EC on 15<sup>th</sup> February 2022.

##### **– National Authorising Officer**

On the session held on 18<sup>th</sup> February 2021, the Government of Montenegro appointed Mr Janko Odović, the State Secretary in the Ministry of Finance and Social Welfare, as the National Authorising Officer.

Deputy NAO informed European Commission and Audit Authority on this personal change on 5<sup>th</sup> March 2021. (Letter N<sup>o</sup>: 01-3284/1).

##### **– Head of Operating Structure**

On the session held on 30<sup>th</sup> July 2021, the Government of Montenegro gave its consent to the proposal regarding the appointment of Ms Irena Bošković on the position of the Advisor to Deputy Chief Negotiator – National IPA Coordinator. Ms Bošković also performs the function of Head of Operating Structure for the CBC Programmes implemented in indirect management.

NAO informed European Commission on this personal change through NAO AMD Assessment Report on functioning of MCS for the year 2021 submitted to EC on 15<sup>th</sup> February 2022.

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

During 2021, the following changes occurred in the Albanian Operating structure:

##### **– National IPA Coordinator**

On the basis of the Order of the Prime Minister N<sup>o</sup>.133, dated 22<sup>nd</sup> November 2021, Mr Ilir Beqaj has been appointed as General Director of the State Agency for Strategic Programming and Assistance Coordination in the Prime Minister's Office and the National IPA Coordinator (NIPAC) of Republic of Albania. Mr Beqaj signed Confirmation on readiness to carry out function and responsibilities of NIPAC on 6<sup>th</sup> December 2021.

Albanian structure informed EC about this change on 6<sup>th</sup> December 2021. (Letter N<sup>o</sup>: 21846). Montenegrin OS was informed by email on 13<sup>th</sup> December 2021.

– **Head of Operating Structure**

According to Internal Order of the Minister of MEFA N°.432, dated 29<sup>th</sup> July 2021, Mrs. Anis Lamllari is appointed as the Adviser to the Minister of MEFA and Head of OS for CBC Programme Montenegro-Albania. Ms Lamllari performed the function of HOS until December 2021. This position is currently vacant.

– **Head of CBC Body**

The Head of CBC Body resigned from her position in MEFA in September 2021 and this position is still vacant. (temporarily is replaced by responsible Programming Officer).

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

The changes that occurred in MCSS in 2021 have been communicated to the European Commission and the Audit Authority. Changes have been assessed by Audit Authority and we can confirm their compliance with Article 7 of Commission Implementing Regulation (EU) N° 447/2014.

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

**3. CHANGES TO THE AUDIT STRATEGY**

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

The Audit Strategy for IPA II 2014-2020 CBC Programme "Montenegro – Albania" was prepared and submitted to the European Commission with a copy to the NAO in November 2020. The Audit Strategy was prepared on a tri-annual basis for period 2021-2023 following the model in Annex G of Montenegrin Framework Agreement and approved by Head of Audit Authority after having obtained the opinion of GoA members.

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

**4. SYSTEMS AUDITS**

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

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

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

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

Audit period	1. Programme (CCI and title)	2. Audit Body	3. Audited Body(ies)	4. Date of the audit	5. Scope of the audit	6. Principal findings and conclusions	7. Problems of systemic character and measures taken	8. Estimated financial impact (if applicable)	9. State of follow-up (closed /or not)
01.01.2021. - 31.12.2021.	IPA II 2014-2020 Cross-Border Cooperation Programme Montenegro-Albania (C (2014) 9352)  <i>CRIS N°:</i>  2014/037-593 2015/038-158 2016/038-174 2017/038-175 2018/041-468 2019/041-470 2020/041-471	Audit Authority of Montenegro +  Goa members	1.National Fund 2.NAO SO 3.CA/CFCU 4.Control Body  +  Follow up in all bodies within MCSS of the IPA II 2014-2020 CBC Programme Montenegro-Albania	June– December 2021	-2(c) Fraud risk – NAO SO, CA/CFCU, CB;  -3(a) Selection and development of control activities - NFD, CA/CFCU, CB;  -5(a) On-going and specific monitoring – NAO SO;  -5(b) Assessment, recording and communication of internal control deficiencies – NAO SO;  - Follow up of open findings from previous audits - all bodies within MCSS	<i>Findings related to Montenegro</i>  1. Failure to meet prescribed deadlines – CA/CFCU; 2. No evidence related to the verified costs – CA/CFCU; 3. Mistake related to the calculation of the Relevance of the action – CA/CFCU; 4. Discrepancy between approved amount in the Grant Contracts Award Notice table and approved amount in the signed Contract – CA/CFCU; 5. Technical errors observed in process of control and supervision of grant beneficiaries' financial reports and payment requests – CA/CFCU  <i>Findings related to Albania</i>  1. On-the-spot verifications not reported to the CBC Body, HOS office, JTS and Grant Beneficiary – CB  <i>Audit conclusion:</i>  Category 2 – Works, but some improvements are needed.  For more details please refer to the point 4.4 of this report.	-	-	Findings are OPEN.

Based on level of implementation of IPA II 2014-2020 CBC Programme "Montenegro-Albania" and all collected information and documentation, as well as in accordance with adopted Audit Strategy for period 2021-2023 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 (NF):**

- 3(a) Selection and development of control activities

**NAO Support Office (NAO SO):**

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

**Contracting Authority (CA):**

- 2(c) Fraud risk
- 3(a) Selection and development of control activities

**Control Body (AL CB)**

- 2(c) Fraud risk
- 3(a) Selection and development of control activities

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

The system audit encompassed the period from 1<sup>st</sup> October 2020 to 30<sup>th</sup> September 2021. The audit was performed in the period from 17<sup>th</sup> June 2021 until 24<sup>th</sup> December 2021. The Final Audit Report was issued and submitted to National Authorising Officer, National IPA Coordinator of Montenegro, National IPA Coordinator of Albania, Head of Operating Structure in Montenegro and Head of Operating Structure in Albania on 28<sup>th</sup> January 2022.

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

For the purpose of detailed defining of the scope of the audit, during the preparation of Audit Strategy for period 2021-2023 the Audit Authority performed a detailed risk assessment to determine the bodies and ICF area which will be covered by system audit. Additionally, in order to define the key requirements within each area which will be encompassed by the appropriate audit activities in particular body, we performed risk assessment at the level of each requirements during system audit engagement planning.

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

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

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

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

- National Fund (NF);
- NAO Support Office (NAO SO);
- Contracting Authority (CA) and
- Control Body (AL CB).

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

- 2(c) Fraud risk – NAO SO, CA and CB;
- 3(a) Selection and development of control activities – NF, CA, CB;
- 5(a) On-going and specific monitoring – NAO SO;
- 5(b) Assessment, recording and communication of internal control deficiencies – NAO SO.

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

The outcome of the audit process is summarized in the Final system audit report that provides findings and recommendations which were identified during the audit process in each body of Management Structure and Operating structures. Findings were categorized according to level of importance to major, intermediate and minor findings. During this audit engagement we identified in total 5 findings related to Montenegrin bodies: 3 major, 1 intermediate and 1 minor. In respect to Albanian bodies we identified 1 intermediate finding during the audit.

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

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

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

<b>IPA Body</b> <b>Audit area</b>	<b>DMS</b> <b>(NF/NAOSO)</b>	<b>CA/CFCU</b>	<b>CB ALB</b>	<b>TOTAL</b>
2(c)	1	1	1	1
3(a)	1	2	2	2
5(a)	1	-	-	1
5(b)	1	-	-	1
<b>TOTAL</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>2</b>

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

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

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

Further below there is a description of the most important findings (major and intermediate) and recommendations provided for correcting the findings detected.

#### 4.4.1 Principal Findings and recommendations related to MCSS

##### A) Principal Findings and recommendations related to MCSS in Montenegro

###### ➤ Finding N° 1: Failure to meet prescribed deadlines

ICF requirement:

###### 3. Control activities

(a) Selection and development of control activities

*Level of priority: Major*

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

According to the MoP (version 2.0) Chapter Financial Management and Accounting upon receipt of the Financial report and Payment request issued by the grant beneficiary, IA shall perform relevant checks with regard to the legitimacy and accuracy of the payment request and submitted supporting documents and conformity with the contract provisions.

Depending on the type of contracts and payments the IA has a period of maximum 30/58 calendar days from the receipt Interim/Final Financial Report (Narrative and Financial Part) to complete, send and post into the SAP Written Approval Letter.

According to Grant Contract General Condition, point 15.4 Payment deadlines "*...Further pre-financing payments and payments of the balance shall be made within 60 days of receipt of the payment request by the Contracting Authority.*

*However, further pre-financing payments and payments of the balance shall be made within 90 days of receipt of the payment request by the Contracting Authority in any of the following cases:*

- a) one Beneficiary with affiliated entity(ies);*
- b) if more than one Beneficiary is party to this Contract;*
- c) if the Commission is not the Contracting Authority*
- d) for grants exceeding EUR 5 000 000*

*The payment request is deemed accepted if there is no written reply by the Contracting Authority within the deadlines set above."*

According to Grant Contract General Condition, point 15.5 Suspension of the period for payments "*Without prejudice to Article 12, the time-limits for payments may be suspended by notifying the Coordinator that:*

- a) the amount indicated in its request of payments is not due, or;*
- b) proper supporting documents have not been supplied, or;*
- c) clarifications, modifications or additional information to the narrative or financial reports are needed, or ....*

*...The suspension of the time-limits for payments starts when the above notification is sent to the Coordinator. The time-limit starts running again on the date on which a correctly formulated request for payment is recorded. The Coordinator shall provide any requested information, clarification or document within 30 days of the request..."*

Reviewing the procedures for Financial Management and Accounting related to the approval costs and payment executions for the Contracts: CFCU/MNE/049, CFCU/MNE/050, CFCU/MNE/051, CFCU/MNE/052 and CFCU/MNE/053, the Audit Authority auditors concluded that:

1. Deadlines prescribed in the Manual of Procedures related to the performance of management verification and issuance of Written approval letter (final report) had not been respected.
  2. Deadlines prescribed in the PRAG rules, General Conditions of the Contracts related to the execution of the payments (final request) to the grant beneficiaries had not been respected.
- *Namely, Audit Authority auditors reviewed procedures related to the approval of interim/final report and reported costs for five (5) contracts (CPOS-FROS, Checklists for verification of the expenditure for Interim/Final Report) and concluded that the CFCU had not issued Written Approval letters for three (3) Contracts and issued Written Approval letters for two (2) contracts after defined deadlines:*

#### **1. For CFCU/MNE/049**

Final Financial Report was archived on 27<sup>th</sup> January 2021, deadline for entry into the accounting system Written Approval Letter was 26<sup>th</sup> March 2021.

Bearing in mind that:

1. CFCU sent Request for additional information on 24<sup>th</sup> February 2021 (deadline for submission of documents was 8<sup>th</sup> March 2021) and 17<sup>th</sup> March 2021 (deadline for submission 29<sup>th</sup> March 2021), **new deadline for entry into accounting system was 20<sup>th</sup> April 2021.**

**Written Approval Letter was sent to the Grant Beneficiary on 9<sup>th</sup> September 2021 and entered into accounting system on 9<sup>th</sup> September 2021.**

#### **2. For CFCU/MNE/050**

Final Financial Report was archived on 20<sup>th</sup> April 2021, deadline for entry into the accounting system Written Approval Letter was 17<sup>th</sup> June 2021.

**The deadline was not respected.**

**Written Approval Letter has not been sent and entered into accounting system yet.**

#### **3. For CFCU/MNE/051**

Final Financial Report was archived on 16<sup>th</sup> December 2020, deadline for entry into the accounting system Written Approval Letter was 12<sup>th</sup> February 2021.

1. CFCU sent Request for additional information on 21<sup>st</sup> January 2021 (deadline for submission of documents was 29<sup>th</sup> January 2021) and 22<sup>nd</sup> February 2021 (deadline for submission 1<sup>st</sup> March 2021).

**The deadline was not respected.**

**Written Approval Letter has not been sent and entered into accounting system yet.**

#### **4. For CFCU/MNE/052**

Final Financial Report was archived on 23<sup>rd</sup> February 2021, deadline for entry into the accounting system Written Approval Letter was 22<sup>nd</sup> April 2021.

1. CFCU sent Request for additional information on 8<sup>th</sup> April 2021 (deadline for submission of documents was 15<sup>th</sup> April 2021) and 21<sup>st</sup> April 2021 (deadline for submission 28<sup>th</sup> April 2021), **new deadline for entry into accounting system was 5<sup>th</sup> May 2021.**

**The deadline was not respected.**

**Written Approval Letter has not been sent and entered into accounting system yet.**

#### **5. For CFCU/MNE/053**

Final Financial Report was archived on 3<sup>rd</sup> March 2021, deadline for entry into the accounting system Written Approval Letter was 30<sup>th</sup> April 2021.

1. CFCU sent Request for additional information on 29<sup>th</sup> April 2021 (deadline for submission of documents was 13<sup>th</sup> May 2021) and 30<sup>th</sup> August 2021 (deadline for submission 6<sup>th</sup> September 2021).

**Written Approval Letter was sent to the Grant Beneficiary on 5<sup>th</sup> October 2021 and entered into accounting system on 5<sup>th</sup> October 2021.**

- *Auditors reviewed documentation related to the approval of final payment for five (5) contracts (Checklist for Final payment, Request for Funds Checklists and SAP printout) and concluded that Payment executions for five (5) contracts had not been sent and made in accordance with the defined deadlines as follows:*

#### **1. For CFCU/MNE/049**

Final Financial Report was archived on 27<sup>th</sup> January 2021.

1. Contract was suspended for 12 days (First Request for additional information was submitted on 24<sup>th</sup> February 2021 and deadline for submission of the documents was 8<sup>th</sup> March 2021).
2. Contract was suspended for 12 days (Second Request for additional information was submitted on 17<sup>th</sup> March 2021 and deadline for submission of the documents was 29<sup>th</sup> March 2021).

Bearing in mind that:

\* Request for final Payment was submitted on 27<sup>th</sup> January 2021,

\* 24 days of the suspension

**Deadline for execution of the final payment and entry into the accounting system was 19<sup>th</sup> May 2021. However, Payment order was not conducted in the period of the System Audit.**

#### **2. For CFCU/MNE/050**

Final Financial Report was archived on 20<sup>th</sup> April 2021.

**Deadline for execution of the final payment and entry into the accounting system was 19<sup>th</sup> July 2021. However, Payment order was not conducted in the period of the System Audit. The Audit Authority didn't receive any information that CFCU suspended payment or requested additional information/clarification from the beneficiary.**

#### **3. For CFCU/MNE/051**

Final Financial Report was archived on 16<sup>th</sup> December 2020.

1. Contract was suspended for 8 days (First Request for additional information was submitted on 21<sup>st</sup> January 2021 and deadline for submission of the documents was 29<sup>th</sup> January 2021).
2. Contract was suspended for 7 days (Second Request for additional information was submitted on 22<sup>nd</sup> February 2021 and deadline for submission of the documents was 1<sup>st</sup> March 2021).

Bearing in mind that:

\* Request for final Payment was submitted on 16<sup>th</sup> December 2020,

\* 15 days of the suspension

**Deadline for execution of the final payment and entry into the accounting system was 30<sup>th</sup> March 2021. However, Payment order was not conducted in the period of the System Audit.**

#### **4. For CFCU/MNE/052**

Final Financial Report was archived on 23<sup>rd</sup> February 2021.

1. Contract was suspended for 7 days (First Request for additional information was submitted on 8<sup>th</sup> April 2021 and deadline for submission of the documents was 15<sup>th</sup> April 2021).
2. Contract was suspended for 7 days (Second Request for additional information was submitted on 21<sup>st</sup> April 2021 and deadline for submission of the documents was 28<sup>th</sup> April 2021).

Bearing in mind that:

\* Request for final Payment was submitted on 23<sup>rd</sup> February 2021,

\* 14 days of the suspension

**Deadline for execution of the final payment and entry into the accounting system was 7<sup>th</sup> June 2021. However, Payment order was not conducted in the period of the System Audit.**

#### **5. For CFCU/MNE/053**

Final Financial Report was archived on 2<sup>nd</sup> March 2021.

1. Contract was suspended for 14 days (First Request for additional information was submitted on 29<sup>th</sup> April 2021 and deadline for submission of the documents was 13<sup>th</sup> May 2021).
2. Contract was suspended for 12 days (Second Request for additional information was submitted on 30<sup>th</sup> August 2021 and deadline for submission of the documents was 6<sup>th</sup> September 2021).

Bearing in mind that:

- \* Request for final Payment was submitted on 2<sup>nd</sup> March 2021,
- \* 26 days of the suspension

**Deadline for execution of the final payment and entry into the accounting system was not respected. Payment order was not conducted in the period of the System Audit.**

During contradictory procedures CFCU issued Written approval for contract CFCU/MNE/050 on 30<sup>th</sup> December 2021. Additionally, evidences were submitted related to payment execution. For contract CFCU/MNE/049 payment was processed on 3<sup>rd</sup> November 2021 and for contract CFCU/MNE/053 on 10<sup>th</sup> November 2021.

#### **Recommendation:**

The Audit Authority auditors recommend to the CFCU to:

1. Perform verification and send Written Approval Letters to the grant beneficiaries for the Contracts CFCU/MNE/051 and CFCU/MNE/052 and respect prescribed deadlines in the Manual of Procedures in the future.  
Make Payment executions for the Contracts CFCU/MNE/050, CFCU/MNE/051 and CFCU/MNE/052 and respect prescribed deadlines from the General Conditions of the Contracts and from the Manual of Procedures in the future.
2. Coordinate tasks and activities with the Control Body to respect the deadlines prescribed in the Programme Level Control Procedures.  
The Audit Authority draws attention to the finding No.1 related to MCSS in Albania from the System Audit Report No. 3011-1-06-404 from 28<sup>th</sup> December 2020, concerning *Delays in process of expenditure verification*.
3. Establish better coordination with the Control Body in respect to the activities for performing verification, in a way that after checking the documents by relevant CFCU and Control Body staff (FLC1 and FLC2), CFCU sends one Request for additional information/clarification in accordance with the deadline prescribed in point 15.5 of Grant Contract General Conditions and deadline prescribed in the Manual of Procedures, Chapter Financial Management, point 4.5 Modalities concerning cost recognised – Table 3: Specific operational procedures: Approval of financial reports/approval costs.
4. Give deadline to beneficiary for submitting the additional documentation and clarifications which is realistic, bearing in mind that the beneficiary already has one month from the period of the implementation for submitting the interim reports and three months after the implementation period for final reports. All documents submitted by beneficiaries after the deadline should be considered unacceptable. CFCU should respect prescribed deadline for suspension of the contract.

➤ **Finding N° 2: No evidence related to the verified costs**

ICF requirement:

*3. Control activities*

(a) Selection and development of control activities

***Level of priority: Major***

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

According to the MoP (version 2.0) Chapter Financial Management upon receipt of the Financial report and Payment request issued by the grant beneficiary, IA shall perform relevant checks with regard to the legitimacy and accuracy of the payment request and submitted supporting documents and conformity with the contract provisions. Verification is performed following Checklist for Grant contract Financial Report. After the verification has been completed, the amount of cost recognised/payment request is entered into the annexes: CPOS-FROS and Written approval as well as Checklist for Interim/Final Payment and Checklist for Request for Funds and made into accounting entry.

Reviewing the procedures for Financial Management and Accounting related to the approval costs and payment executions, the Audit Authority auditors concluded that CFCU hadn't conducted verification of the Final Payment request submitted on 27<sup>th</sup> January 2021 for the Contract CFCU/MNE/049, verification of the Final Payment request and Final Financial Report submitted on 20<sup>th</sup> April 2021 for the Contract CFCU/MNE/050, verification of the Final Payment request and Final Financial Report submitted on 16<sup>th</sup> December 2020 for the Contract CFCU/MNE/051, verification of the Final Payment request and Final Financial Report submitted on 23<sup>rd</sup> February 2021 for the Contract CFCU/MNE/052 and verification of the Final Payment request submitted on 3<sup>rd</sup> March 2021 for the Contract CFCU/MNE/053 in accordance with the written procedures.

Namely, CFCU did not:

1. fill-in and check Checklist for Grant Contract Financial Report for the Contracts: CFCU/MNE/050, CFCU/MNE/051 and CFCU/MNE/052;
2. approve costs and send Written Approval Letter for the Contracts: CFCU/MNE/050, CFCU/MNE/051 and CFCU/MNE052;
3. fill-in and check Checklist for Final Payment for the Contracts: CFCU/MNE/049, CFCU/MNE/050, CFCU/MNE/051, CFCU/MNE052 and CFCU/MNE/053.

Based on the analysis of submitted documents during contradictory procedure the Audit Authority auditors have concluded that CFCU conducted verification of the Financial Report and sent Written Approval letter on 30<sup>th</sup> December 2021 for the Contract CFCU/MNE/050, conducted verification of the Final payment on 20<sup>th</sup> October 2021 for the Contract CFCU/MNE/049 and conducted verification of the Final payment on 27<sup>th</sup> October 2021 for the Contract CFCU/MNE/053.

CFCU did not conduct verification of the Financial report, send Written Approval and conduct verification of the Final payment for the Contracts CFCU/MNE/051 and CFCU/MNE/052, and did not conduct verification of the Final payment for the Contract CFCU/MNE/050.

**Recommendation:**

Audit Authority recommends to CFCU to conduct verification mentioned in the finding above as soon as possible and to check and update relevant documents.

Bearing in mind that CFCU failed to perform verification timely, Audit Authority auditors recommend to the CFCU to respect procedures prescribed in the Manual of Procedures, Chapter Financial Management point 4.5 Modalities concerning cost recognition.

➤ **Finding N° 3: Mistake related to the calculation of the Relevance of the action**

ICF requirement:

3. *Control activities*

(a) Selection and development of control activities

**Level of priority: Major**

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

According to PRAG V. 2018.0 Point 6.5.8.4. Evaluation of the full applications *"The quality of the full applications is assessed using the evaluation grid (see Annex E5b 214) containing the selection and award criteria. Comments are made for each subheading on the basis of the questions and criteria used for that heading. In addition, there must always be a check of consistency between budget items and the description of the action. The overall assessment is based on the scores obtained under each subheading, added up by heading. If the evaluation committee does not evaluate the applications itself, the final score is the arithmetical average of the scores given by the assessors. For indirect management, the completed assessments for each proposal must be sent to the evaluation committee (for direct management they are available in PROSPECT)".*

According to points 3.1. Evaluation process and 4. Scouting of PRAG Annex Guidelines for assessors *"The full application will receive an overall score out of 80. The score received for 'relevance' in the concept note evaluation will be transferred to the full application evaluation grid as this aspect will not be assessed again (unless permitted in accordance with the practical guide)."*

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

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

It is evident that Assessment Grids for Full Applications and Full Application Evaluation Grids have been filled in and signed by independent assessors for Applicant No:53 "World Vision Albania" (Total score by Assessor 1 is 74,50 and Total score by Assessor 2 is 74,50). Based on the Composite table for Full Applications it is evident that Total average score of Applicant No:53 "World Vision Albania" is 74,50 (with calculation of Average relevance for second stage of 14,5).

However, based on the evidence, Audit Authority auditors concluded that mistake related to the calculation of the Relevance of the action (column in the Concept Note Table for grids comparison) had been made. Namely, during the assessment of Concept Note, point 1 Relevance of the action was assessed by Assessor 1 with score of 13,00 and by Assessor 2 with score of 14,00 which means that the average score of the Relevance of the action should be 13,50 (difference is 1 point). Bearing in mind that score for Relevance of the action is transferred from Concept Note Evaluation to the Full application evaluation total score by Assessor 1 in Full application evaluation grid should be 73,50 and Total score by Assessor 2 should be 73,50 and based on that Total average score of Applicant No:53 "World Vision Albania" should be 73,50 (with Average relevance for second stage of 13,50).

Although calculation error has been made, it has not been reflected on the ranking of the Applicant No:53 “World Vision Albania” bearing in mind the fact that next ranked Applicant had the same points as the Applicant No:53 “World Vision Albania” (73,50) (point 4.1 Full applications recommended for the award of a grant contract, Specific Objective 3) as well as that the first ranked Application on the reserve list of applications was with a lower number of points (72,00) (see: Evaluation Report - Step 2, point 4.2 Full applications not for provisional selection but put on a reserve list until for three months following the date of notification letter to the provisionally selected applicant and Evaluation Report - Step 3, point 4.2 - Reserve list of eligible applications).

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

### **Recommendation:**

We recommend to the CFCU to pay more attention during the process of the evaluation of the applicants, as this may affect the final result of the evaluation.

#### ➤ **Finding N° 4: Technical errors observed in process of control and supervision of grant beneficiaries’ financial reports and payment requests**

ICF requirement:

#### *3. Control activities*

(a) Selection and development of control activities

***Level of priority: Intermediate***

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

According to the MoP, V. 2.0 Chapter Financial Management, Point 4.2 Payments to contractors/grant beneficiaries FC1 and FC2 in the CFCU should *“perform thorough double checks with regard to the legitimacy and accuracy of the payment request and submitted supporting documents and conformity with the contract provisions”*.

According to the MoP, V. 2.0 Chapter Financial Management, Point 4.5 Modalities concerning cost recognition for the purpose of approval of financial reports/approval of costs FC 1 *“checks the FR and the supporting documents (supporting documentation must be arranged in folders by budget lines) following the Checklist. After updating the analysis (excel table with the costs approved/rejected and detailed explanation of each cost approved or rejected) recommends the cost to be recognised... Transmits the whole FR dossier (FROS, analysis, percentage table) to FC2. FC 2 performs double checking of the FR, the supporting documents, the FC1 calculation of the amount of the cost to be recognised... Transmits the checked documentation to the FC1.”*

Reviewing the procedures for Financial Management and Accounting related to the approval of financial reports/approval of costs and payment executions, the Audit Authority auditors concluded that double check of the submitted financial reports, payment requests and supporting documents had been performed in accordance with the written procedures. However, it is evident that:

1. FC1 and FC2 electronically filled out all Checklists.
2. The Head of CFCU didn't approve and sign Checklist for Request for Funds since, in accordance with the MoP, this Checklist is not foreseen to be approved by the Head of CFCU.

**Recommendation:**

We recommend that:

1. FC1 and FC2 filled out all Checklists in hard copy.
2. Head of CFCU approve and sign Checklist for Request for Funds bearing in mind that this is a crucial Checklist before execution of payment.

**B) Principal Findings and recommendations related to MCSS in Albania:**

➤ **Finding N° 1: On-the-spot verifications not reported to the CBC Body, HOS office, JTS and Grant Beneficiary**

ICF requirement:

*3. Control activities*

(a) Selection and development of control activities

**Level of priority:** *Intermediate*

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

During audit process of the Contract 048 “The Feminine Side of Quality” and the Contract 052 “Local cuisine as tourism offer of cross-border region” it was noticed that the OTSV reports and checklists had been sent only to the Contracting Authority and had not been reported to:

1. CBC Body which is responsible for programming, programme level monitoring and “content” issues related to the Programme;
2. HOS Office which is responsible for verification of Request for Funds received from Contracting Authority;
3. JTS whose main roles are to monitor operations selected and to gather reliable data at operation level;
4. Grant Beneficiary who has to be informed in written with regard to the correction of discrepancies identified and the time frame for the correction.

In the point 9.4 “On-the-spot verifications” of the PLCP it is foreseen that: *“After the on-the-spot verification, CA/CB staff members shall prepare OTSV report. The filled in and signed checklist, together with the report, has to be submitted to the Head of CA/CB for review and approval of the OTSV report. All discrepancies that are identified during the on-the-spot verification, the obligations for elimination and deadlines for conducting remedial actions (where applicable) shall be defined in the report. Copies of the report and OTSV checklist shall be provided to the Control Body (if prepared by the Contracting Authority, and vice versa), CBC Body, the HOS office and JTS (documents shall be provided to all parties which were invited to participate, and not only to those who participated in the OTSV) and the Grant beneficiary. In that respect, the obligations to the Grant beneficiary with regard to the correction of discrepancies identified and the time frame for the correction shall be communicated in written”.*

If the OTSV reports and checklists are not sent to CBC Body, the HOS office and JTS and the Grant beneficiary, it creates lack of information on these structures on the discrepancies identified on the implementation of the grant contracts and puts at risk the effectiveness of remedial action taken.

Based on the response received by the auditee during the contradictory procedure, the Control Body and the Contracting Authority have taken a different approach which is to communicate and report directly to CFCU/MNE.

**Recommendation:**

Bearing in mind that Control Body and Contracting Authority have taken a different approach we recommend that the Programme Level Control Procedures should be revised in accordance with the workflow decided to be followed by the two bodies.

The implementation of the measures taken will be subject of verification of future audits.

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

Not applicable.

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

Not applicable.

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

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

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

According to the results of the system audit conducted during 2021, MCSS established for implementation of the IPA II 2014-2020 CBC Programme "Montenegro-Albania" has been classified in Category 2 that is it '**works, but some improvements are needed**'. Therefore, the level of assurance obtained from the system is average.

**5. AUDITS OF SAMPLES OF TRANSACTIONS**

Not applicable. Bearing in mind that no expenditures were declared during the year 2021, the Audit Authority has not been in position to perform audit of transactions/operations regarding the financial year 2021.

**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.**

The audit of the annual financial reports or statements/annual account in the framework of IPA II 2014-2020 CBC Programme “Montenegro-Albania” was conducted by the Audit Authority of Montenegro according to Audit Strategy 2021-2023.

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

Audit of accounts was carried out in compliance with the Audit Authority Manual of procedures, Programme Audit Strategy 2021-2023, Framework Agreement and relevant Financing Agreements.

The NAO submitted to the Commission, in accordance with Article 59(2) of the Framework Agreement, the Annual Financial Reports for Action and CBC Programmes for Montenegro, managed under indirect management on 15<sup>th</sup> February 2022 including the CBC Programmes “Montenegro-Albania” for years 2014-2020.

The amounts declared in the Annual Financial Report for 2021 is presented in the table below:

Programme Reference	Financing Agreement contract number	Total Amount Disbursed		Total Costs Recognised		Total Open Pre-financing		Bank Balances (EU contribution)	Forecast disbursements
		EU contribution	Other sources	EU contribution	Other sources	EU contribution	Other sources		Next 12 months
CBC MNE-ALB 2014	2014/037-593	1.051.853,92	0,00	692.867,47	125.066,78	358.986,45	0,00	114.064,45	71.885,83
CBC MNE-ALB 2015	2015/ 038-158	1.446.217,57	0,00	1.297.254,09	231.327,86	148.963,48	0,00	140.241,44	90.288,59
CBC MNE-ALB 2016	2016/038-174	954.546,08	0,00	45.110,33	7.966,88	909.435,75	0,00	405.453,92	490.280,53
CBC MNE-ALB 2017	2017/ 038-175	535.857,62	0,00	118.606,60	20.930,57	417.251,02	0,00	416.142,38	437.092,14
CBC MNE-ALB 2018	2018/041-468	0,00	0,00	0,00	0,00	0,00	0,00	0,00	1.360.000,00
CBC MNE-ALB 2019	2019/041-470	0,00	0,00	0,00	0,00	0,00	0,00	0,00	1.360.000,00
CBC MNE-ALB 2020	2020/041-471	0,00	0,00	0,00	0,00	0,00	0,00	0,00	1.224.000,00

During the audit AA took into consideration the results from the system audits regarding the design and operating effectiveness of the management and control (MCSS) in the process of preparing and submitting of the Annual Financial Reports carried out in the National Fund Division (NF) and results of follow up of findings issued in the previous audits. Bearing in mind that no expenditures were declared during the year 2021, the Audit Authority has not been in position to perform audit of transactions/operations regarding the financial year 2021.

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

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

- a) the total amounts contracted and addendums signed, invoices received, payments made and recoveries requested, 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 correspond to the amounts entered in the accounting systems of the National Fund Division (NF) and are based on verifications and relevant supporting documents (requests, checklists, approvals) of the Implementing Agency/CFCU, HOS and National Fund Division (NF);
- b) the total amounts submitted in the Annual Financial Reports correspond to the amounts in the electronic database for each contract in relation to the contract reference, initial contract amount, amended contract amount, contract implementation start and end date, amount paid and amount of recoveries under the contract, amount related to total pre-financing paid and pre-financing cleared, total costs accepted, invoice date, invoice initial amount and invoice eligible amount accepted;
- c) the bank account statement balances and the bank confirmation letter correspond to the year-end balances in the accounting systems of the National Fund Division (NF) and Implementing Agency/CFCU.

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

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

See reconciliation table below:

Programme/Grant beneficiary				NF Accounting System													IA/CFCU											
Name of allocation	Current contract value/ EU part	Current contract value/ Other sources	Source	Payment Request by Grant beneficiary	RIF from IA	Record in NF Acc system	Bridge Financing	Record in NF Acc system	RIFs to EC	Record in NF Acc system	Bank statement MF-NF-IPA Acc	Record in NF Acc system	Bank statement State Treasury Main Acc	Record in NF Acc system	Financial Forecast	Cost recognised EU part	Cost incurred and accepted but not yet paid EU Part	Calculation by AA	Payment Order	Bank statement	Record in CF CU Acc system	Pre-financing paid	Pre-financing cleared	Cost accepted EU part	Open pre-financing	Calculation by AA	Recovery	
CBC MNE-AL 2014	1.165.918,37	209.126,13	Pre-financing	1.062.344,91	1.051.853,92	1.051.853,92	246.304,27	246.304,27	1.051.853,92	1.051.853,92	1.051.853,92	1.051.853,92	1.051.853,92	1.051.853,92	71.885,83	692.867,47	0,00	692.867,47	1.051.853,92	1.051.853,92	1.051.853,92	1.051.853,92	692.867,47	0,00	358.986,45	358.986,45	5.427,28	
			Further pre-financing																									
CBC MNE-AL 2015*	1.586.459,01	280.241,90	Pre-financing	1.448.059,68	1.446.217,57	1.446.217,57	329.145,40	329.145,40	1.446.217,57	1.446.217,57	1.446.217,57	1.446.217,57	1.446.217,57	1.446.217,57	90.288,59	1.297.254,09	12.122,32	1.296.861,58	1.446.217,57	1.446.217,57	1.446.217,57	1.446.217,57	1.297.254,09	12.122,32	148.963,48	149.355,99	12.543,04	
			Further pre-financing																									
CBC MNE-AL 2016	1.605.362,90	283.989,74	Pre-financing	954.546,08	954.546,08	954.546,08	0,00	0,00	954.546,08	954.546,08	954.546,08	954.546,08	954.546,08	954.546,08	490.280,53	45.110,33	0,00	45.110,33	954.546,08	954.546,08	954.546,08	954.546,08	954.546,08	45.110,33	0,00	909.435,75	909.435,75	0,00
CBC MNE-AL 2017	1.051.257,44	185.516,01	Pre-financing	535.857,62	535.857,62	535.857,62	0,00	0,00	535.857,62	535.857,62	535.857,62	535.857,62	535.857,62	535.857,62	437.092,14	118.606,60	0,00	118.606,60	535.857,62	535.857,62	535.857,62	535.857,62	118.606,60	0,00	417.251,02	417.251,02	0,00	
CBC MNE-AL 2018	0,00	0,00	N/A	N/A	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	1.360.000,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
CBC MNE-AL 2019	0,00	0,00	N/A	N/A	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	1.360.000,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
CBC MNE-AL 2020	0,00	0,00	N/A	N/A	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	1.224.000,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00

\* Column recovery: Amount of recovery (which is recognised in the AFR) 12.150,53€ plus amount (which should be recognised by CF CU and recovery based on the findings recognised during the audit of operation for 2020 and results of follow up presented in the Audit Recommendation Status Report issued 2022) 392.51€ (51,40+341,11). Please see Annex II - Follow up of findings given in previous audit of accounts

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

As for CBC programme MNE-ALB for the year 2015, we have identified and documented the following audit finding which does not have an influence on the completeness, accuracy and veracity of AFR for 2021.

➤ **Finding N° 1: Deficiency in process of recovery of funds/Lack of identification of irregularities**

*Level of priority: Intermediate*

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

Reviewing the Annual Financial Report for 2021 as well as Year-end cut off Report for 2021 it is evident that recovery of funds was recognised for Contract CFCU/MNE/048 in total amount of 12.150,53€. Register of recovery of funds as well as Debtor Ledger is filled-in and entered into the SAP, in accordance with the written procedures.

Namely, CFCU detected that for Contract CFCU/MNE/048 total received amount of pre-financing and further pre-financing exceeds the total amount of eligible cost in the amount of 12.150,53€. Total paid amount for pre-financing and further pre-financing is 255.922,03€. Total amount of cost recognised is 243.771,50€.

Based on that, CFCU sent to the Contractor:

1. Notification Letter/Correction of request for recovery of funds on 8th September 2021 with deadline for recovery of funds on 8th October 2021.
2. Notification Letter/Reminder for recovery of funds on 3rd November 2021 with new deadline for recovery of funds on 18th December 2021, bearing in mind that refund was not carried out until requested deadline.
3. Notification Letter/Second reminder for recovery of funds on 27th December 2021 with a new deadline for recovery of funds on 26th January 2022, bearing in mind that refund was not carried out until requested deadline.

Based on the submitted requested documents and conducted interview, Audit Authority auditors concluded that CFCU hadn't followed procedures in respect to the irregularities. Irregularity Alert Form, Irregularity Register and Conclusion on irregularities were not prepared and weren't uploaded in the Irregularity Management System at the moment of calculation of the refund. Additionally, CFCU didn't initiate judicial proceedings in accordance with the written procedures, due to breach of deadlines.

According to the MoP (version 2.0) Chapter Financial Management Point 7. Recovery of Funds (7.1) Recovery of Funds from the contractors/grant beneficiaries *"If payment is not received, then the IA proceeds with:*

- a) Submission of a reminder;*
- b) Activation of the bank guarantee or any other form of security (if there is such);*
- c) Submission of a second reminder;*
- d) Handing over the case to the Irregularity Officer for initiation of a legal proceeding.*

*If the CA fails in recovering the funds from the contractors/grant beneficiary, the IA initiate judicial process for recovery of funds in line with the provisions of the Irregularities Chapter. The NAO will be duly informed.*

*The same procedure is applied when the final balances of the contracts show that the amounts already paid exceed the amounts of the eligible costs .... The information regarding recoveries and late recovery interest are recorded in the Information system - Register of recoveries of the IAs and DMS.”*

According to the MoP (version 2.1) Chapter Irregularity Management Point IV Detection of irregularity “...Definition of irregularities is prescribed by the Article 51 (5b) of the Framework Agreement between Montenegro and the European Commission on the rules for implementation of European Union financial assistance to Montenegro in the framework of the Instrument for Pre-accession Assistance (IPA II), which defines the term “irregularity” as follows: “any infringement of a provision of applicable rules and contracts resulting from an act or an omission by an economic operator which has, or would have, the effect of prejudicing the general budget of the Union by charging an unjustified item of expenditure to the general budget“. This definition encompasses irregularities only at the expenditure side of the EU budget and in relation to the usage of funds in the framework of IPA II” and Point 3. Detrimental impact on general EU budget: actual or potential “Actual impact which is detrimental for general EU budget relates to the amount which is connected to the irregularity that is already included in the payment claim or annual financial statement which NAO already submitted to the EC (cost recognised). Furthermore, establishing the irregularity which had the actual impact on the EU budget influences other processes like preparation and submission of the payment claim towards the EC, preparation of the annual financial statement and recovery, in accordance with IPA II Manual of Procedures.

*Potential impact on the EU budget relates to the situation in which the irregularity is identified and corrected before submitting the payment claim or annual financial statement to the EC. In these situations, certain institutions (primarily the Implementing Agency and the National Fund) are obliged to ensure that expenditures relating to the irregularity are not included in any of further payment claims or financial statements submitted to the EC” and Point IV Most frequent types of irregularities” ...Irregularities with financial impact are irregularities which resulted with payment of unjustified item of expenditure to the contractor or grant beneficiary. The contractor or grant beneficiary are obliged to recover the amount paid for unjustified expenditure on the basis of the request submitted by the contracting authority and within prescribed deadline”. and Point V6. Calculation of irregularity amount (Recovery of funds) “The Implementing Agency is obliged to recover from contractors/beneficiaries any wrongly paid/spent amount. When the irregularity is identified, and if the funds, which were not eligible, were paid to the contractor/beneficiary, the Implementing Agency is obliged to request recovery of funds to a respective bank account.”*

Reviewing the procedures related to the approval of costs and payment executions as well as procedures of recovery, the Audit Authority auditors concluded that CFCU hadn’t followed procedures in respect to the irregularities.

### **Recommendation:**

We recommend that:

1. Irregularity Alert Form, Irregularity Register and Conclusion on irregularities should be prepared and uploaded in the Irregularity Management System, considering that in this way CFCU will have in the same place register of beneficiaries whose costs are proclaimed as ineligible, as well as a register of beneficiaries who don’t fulfil the obligation of refunds on time.
2. CFCU should prepared Notification Letter for recovery in accordance with the Annex II - General Conditions of signed Contract Article 18 – Recovery (point 18.4) and initiate judicial proceedings timely.
3. CFCU should inform relevant authorities and bodies for CBC Programme on Conclusion on irregularities and take measures to eliminate them.
4. Additionally, AA auditors recommend updating written procedures in respect to the Irregularities and financial management in the manner that:

- more clearly prescribe procedures with a specific example of what the CFCU should do when a payment has been made and the beneficiary has reported costs that are proclaimed as ineligible
- define the deadline for recovery of fund in the Letters for Reminder for recovery of funds and Second reminder for recovery of funds, which should be shorter than the deadline in the Letter for Correction of request for recovery of funds.

**- Follow up of previous year' audit of accounts**

During the audit we also performed follow up of findings issued during the previous audit of accounts. The result of performed follow up is that out of 2 issued findings, one finding is closed and one finding is still open. Results of follow up are presented in table below:

N°	Findings identified during the audit of accounts 2020	Status in February 2022	Priority level and new deadline for implementation
1.	<p><b>Influence on the completeness, accuracy and veracity of the Annual Financial Reports</b></p> <p>Reviewing the Annual Financial Report for 2020 for CBC Programme Montenegro-Albania 2015 it has been determined that financial corrections identified during Audit of operation in amount of 516,07€ have not been used into account during the preparation of AFR for 2020.</p> <p>CFCU did not issue updated Written Approval Letters with modification of the total cost recognised and insert relevant documents into the SAP.</p> <p>Also, NF didn't use into account ineligible expenditure prescribed in the Final Audit Operation Report and did not reduce cost recognised in AFR for 2020 for the amount of determined ineligible expenditures.</p>	<p><b>Not implemented</b></p> <p>During the follow up of audit of operation it was determined that out of 516,07€, 56,94€ reported within budget line 5.7.15 and 3,99€ of related indirect costs are considered eligible. In accordance with that amount of 455,14€ (392,52€ EU part and 62,62€ private contribution) is ineligible amount.</p> <p>During the audit of account, we determined that CFCU had not rejected ineligible costs, had not issued updated Written Approval Letter and had not entered relevant documents into the SAP.</p> <p>Costs recognised in the Annual Financial Report for 2021 for CBC Programme Montenegro-Albania 2015 are not corrected in relation with determined financial correction.</p>	<p><i>Level of priority:</i></p> <p>Major</p> <p><i>Deadline:</i></p> <p>Immediately for CFCU;</p> <p>Next Declaration/ Financial Report for DMS</p>
2.	<p><b>Discrepancy in the data entered in the SAP and the CFCU supporting documentation</b></p> <p>Reviewing the Annual Financial Report for 2020 as well as Year-end cut off Report for 2020 discrepancy related to the presented cost recognised has been determined.</p> <p>For CBC Programme "Montenegro-Albania 2015", discrepancy is evident for the Contract CFCU/MNE/050 in amount of 3,00€ (EU part).</p> <p>CFCU approved amount of 259.336,57€ (EU part) by Written Approval Letter and Contract Payments Overview Sheet-FROS. However, in the IA Monthly Progress Report on Contracts and Payments and planned cost recognized and SAP print-out, CFCU entered amount of 259.339,57€ (EU part).</p>	<p><b>Implemented</b></p> <p>Based on the submitted Written Approval Letters as well as CPOS/FROS, Status of Commitment and Disbursement table and SAP export table it is evident that CFCU updated data of approved cost (in amount of 3,00€).</p> <p>Adequate documents were taken into account during the process of verification and approval of IA Progress report on contracts and payments by NF as well as preparation of Year-end cut-off report and Annual Financial Report.</p> <p>Based on the submitted Annual Financial Report and supporting documents it is evident that financial correction (in amount of 3,00€) is included by NF.</p>	

<p>Additionally, hard copy version of Written Approval Letter as well as Contract Payments Overview Sheet-FROS have not been used into account during process of verification and approval of IA Progress report on contracts and payments by NF as well as preparation of Year-cut off report and Annual Financial Report.</p>	<p><b><u>The finding is closed.</u></b></p>	
---	---	--

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

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

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

System audit has not resulted in financial corrections regarding the reference period and has not influenced the correctness of the Annual Financial Reports for 2021.

Bearing in mind that no expenditures were declared during the year 2021, the Audit Authority has not been in position to perform audit of transactions/operations regarding the financial year 2021.

However, the audit of operation performed during 2020 has resulted in financial corrections regarding the reference period.

The audit finding issued within the audit of operation for 2020 and results of follow up with financial correction in totally amount of 455,14€ (392,52€ EU part and 62,62€ private contribution) have influence on the completeness, accuracy and veracity of the Annual Financial Reports for 2021 for CBC Programme Montenegro-Albania 2015. Costs recognised in the Annual Financial Report for 2021 are not corrected for the amount of determined financial correction.

Based on the audit work performed we have obtained reasonable assurance on the completeness, accuracy and veracity of the amounts declared in the accounts submitted to the Commission for the accounting year 2021, except amounts of Cost recognised and Open pre-financing indicated in the finding issued during the audit of operation performed in 2020 (Audit Operation Report No:3011-3-06-135 from 9<sup>th</sup> March 2021) related to the CBC Programme Montenegro-Albania 2015.

Correction which should be made are below materiality level of 2% (30.571,64€ for Cost recognised and 2.979,27€ for Open pre-financing).

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

No problems considered to be systemic in nature were identified.

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

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

During system audit performed in 2021, Audit Authority in cooperation with Albanian GoA members carried out follow up of implementation of recommendation related to open findings from the previous years. Results of follow up were presented in Final System audit report and Audit Recommendations' Status Report.

Additionally, in the period December 2021 – January 2022 we performed follow up of implementation of recommendation given during previous years' audits of operation. Results of follow up were presented in Audit Recommendations' Status Reports which were submitted to all IPA Bodies in Montenegro and Albania.

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

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

N <sup>o</sup>	Findings identified during the System audit 2017	Body	Status in January 2022	New deadline
1.	Understaffing	IA/CFCU	<b><i>Implemented</i></b> Based on the submitted Staff overview table for CBC programmes the progress in respect to the engagement of staff in the CFCU is evident.  The WLA minimum requirements for the number of needed Accountant positions has been fulfilled. Namely, based on the staff overview and the Employment Decision, it is evident that the position of Accountant is fulfilled in accordance with the AA auditors' recommendations.	
2.	Deficiency in the MoP Written Procedures	NAOSO	<b><i>Not implemented</i></b> The difference between the chapters is evident. Changes in certain chapters do not imply compliance with other chapters on which those changes are reflected. (Part I and Part II).  Level of priority: <i>Minor</i>	May, 2022
3.	Inadequate backup of data and insufficient number of trainings related to IT	NF NAOSO HOS Office	<b><i>Partly implemented</i></b> CFCU and NFD ensured back up of data and staff attended trainings in previous period.	May, 2022

		CBC Body IA/CFCU	<p>The need for additional trainings related to IT security policy is recognised and included in the Action Plan ISO27002 and Training Plan for 2022.</p> <p>Implementation of activities envisaged in the IT Action plan ISO 27002 will be monitored in following period.</p> <p>HOS Office and CBC Body staff still use external hard disk which is not secured enough and is not in accordance with prescribed procedures.</p> <p>Trainings related to IT security policy and back up of data should also be organised.</p> <p>Level of priority: <i>Intermediate</i></p>	
N <sup>o</sup>	Findings identified during the System audit 2019	Body	Status in January 2022	New deadline
1.	Functioning of Operating Structure	NIPAC MNE NAO HOS MNE CFCU	<p><b><i>Not implemented</i></b></p> <p>Bearing in mind Management response and submitted Reports on verification and pending reports AA auditors concluded progress in respect to the verification of the Financial reports by Control Body and CFCU.</p> <p>Namely, it is evident that Montenegrin IPA Bodies made effort, through communication and organizing trainings, which was supposed to affect the efficiency in the work of the Control Body.</p> <p>Additionally, it is evident that Control Body verified and issued certificates of eligibility of expenditure which were provided to the CFCU as follows:</p> <ol style="list-style-type: none"> <li>1. CFCU/MNE/048 for all reports</li> <li>2. CFCU/MNE/049 for all reports</li> <li>3. CFCU/MNE/050 for 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> reports</li> <li>4. CFCU/MNE/051 for 2<sup>nd</sup> and 3<sup>rd</sup> reports</li> <li>5. CFCU/MNE/052 for 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> reports</li> <li>6. CFCU/MNE/053 for all reports</li> </ol>	One month

			<p>7. CFCU/MNE/054 for 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> reports</p> <p>8. CFCU/MNE/055 for 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup> report jointly for all 5 reports.</p> <p>However, it is evident that certificates by Control Body were not submitted to the CFCU for following financial reports:</p> <ol style="list-style-type: none"> <li>1. CFCU/MNE/051 for 4<sup>th</sup> reports</li> <li>2. CFCU/MNE/052 for 4<sup>th</sup> report</li> <li>3. CFCU/MNE/055 for 6<sup>th</sup> report</li> </ol> <p>For contract CFCU/MNE/055 Confirmation of eligibility was issued jointly for all 5 reports by Control Body, but it is necessary to issue separate Confirmations for each reporting period.</p> <p>Based on the above-mentioned verified reports it is evident progress and that the certificates for most of the reports were issued.</p> <p>AA auditors concluded that it was necessary that Control Body verified all financial reports as soon as possible.</p> <p>Level of priority: <i>Major</i></p>	
2.	Audit trail for travel costs	CFCU CB	<p><b><i>Not implemented</i></b></p> <ol style="list-style-type: none"> <li>1. Regarding the Contract CFCU/MNE/048 based on the submitted Clarification Table as well as Revisited Confirmation Report No:101 from 20<sup>th</sup> August 2021 it is evident that cost related to the budget line 2.2.2. – local transportation rejected in amount of 4,48€, in accordance with the AA auditor’s recommendation.</li> <li>2. Regarding the contract CFCU/MNE/049 AA auditors re-perform verification once again and concluded that only part of the costs had been eligible costs (30%).</li> </ol> <p>Out of the total advance payment (1.500,00€) eligible cost is 487,97703€. In particular, for the part of the costs that were not approved by AA auditors, there is a lack of evidence, i.e. fuel invoices.</p> <p>Ineligible cost is 1.012,02€</p>	Immediately

			<p>3. Regarding the Contract CFCU/MNE/055 AA auditors re-perform verification and concluded that based on the one/same Internal order from 6<sup>th</sup> June 2018, costs related to travel (fuel) had been accepted for two participants. Out of approved costs by Control Body (76,50*2=153,00€) illegible cost is 76,50€.</p> <p>4. Regarding the Contracts CFCU/MNE/051 and CFCU/MNE/052 AA auditors recommend to the Control Body and CFCU to verify cost in accordance with the findings and recommendation stipulated in the Report for System Audit from 2019.</p> <p>Based on the above-mentioned AA auditors recommended to the Control body and CFCU to reject all cost without all necessary documents, immediately, in accordance with the AA auditors' above-mentioned calculation.</p> <p>All expenditures for which there is no sufficient audit trail should be proclaimed ineligible.</p> <p>Level of priority: <i>Major</i></p>	
N°	Findings identified during the System audit 2020	Body	Status in January 2022	New deadline
1.	Verification of expenditures related to the per diem and travel	CFCU	<p><b>Implemented</b></p> <p>Based on the submitted Written Approval Letter No:10-2621 from 5th October 2021 as well as supporting document it is evident that CFCU rejected costs related to the international travel and per diems in accordance with the AA auditors' recommendations.</p>	

Out of 6 findings which remained open after the previous Annual Audit Activity Report, 2 of them are closed during the follow up.

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

N°	Findings identified during the System audit 2017	Body	Status in January 2022	New deadline
1.	Lack of Work Load Analysis, Recruitment plan and Job descriptions	CBC Body	<i>Implemented</i>	
N°	Findings identified during the System audit 2018	Body	Status in January 2022	New deadline
	No open findings			
N°	Findings identified during the System audit 2019	Body	Status in January 2022	New deadline
1.	Functioning of Operating Structure	NIPAC ALB HOS ALB CB	<p><i>Not implemented</i></p> <p>Significant progress has been made. During the 2020 the Albanian Control Body has started with verifications of expenditures for Albanian Beneficiaries and verified most of the reports. However, verifications have not been finalised by CB for the contracts:</p> <p>-CFCU/MNE/051 –Report 4 which is under verification by CB.</p> <p>-CFCU/MNE/052 – Report 4, which is under verification by CB.</p> <p>Regarding the contract CFCU/MNE/055 the CB has not received financial report 6. In addition, for this contract, Confirmation of eligibility was issued jointly for all 5 reports by Control Body, but it is necessary to issue separate Confirmations for each reporting period.</p> <p>Level of priority: <i>Major</i></p>	One month
N°	Findings identified during the System audit 2020	Body	Status in January 2022	New deadline
1.	Delays in process of expenditure verification	CB	<i>Implemented</i>	

2.	Appointment of Publicity Officer	CBC Body	<i>Implemented</i>	
3.	Lack of Contingency Plan	CBC Body	<i>Implemented</i>	

Out of 5 findings which remained open after the previous Annual Audit Activity Report, 4 of them are closed during the follow up.

*Status of audit of operation findings:*

N°	Findings identified during the Audit of operation 2019	Body	Status in January 2022	New deadline
1.	Procedures for control of eligibility of expenditure	CFCU	<p><i>Not implemented</i></p> <p>Controllers do not perform administrative verification of fulfilment of criterion relating to the accounting. They confirmed the fulfilment of this criterion in administrative control check list but without adequate supporting documents related to accounting entries.</p> <p>Accounting evidence was checked only during the on the spot control which was not performed before approval of each Interim report.</p> <p>Level of priority: <i>Intermediate</i></p>	Until the approval of the next/Final Progress Financial Report

N°	Findings identified during the Audit of operation 2020	Body	Status in January 2022	New deadline
1.	Expenditure verification not performed by Control Body of Albania	CB	<p><i>Not implemented</i></p> <p>Expenditures corresponding to staff costs of Archaeology Excavation and Works Coordinator, Institute of Archaeology, Centre for Albanian Studies, for the contract CFCU/MNE/055 “Augmenting Cooperation – from Christian Antiquities Towards Enhances Tourism” still have not been verified by Control Body.</p> <p>Level of priority: <i>Intermediate</i></p>	Immediately
2.	Insufficient monitoring of the activities of the	CB	<i>Not implemented</i>	Immediately

	contract by CB of CFCU of Albania		<p>During audit process for the contract 055 “Augmenting Cooperation – from Christina Antiquities towards Enhanced Tourism” it was noted insufficiency in the controls relating to outputs performed by Albanian CB. For all outputs of the audit period, executed by the experts, it is not clear if they are fulfilled as foreseen by the contract because the column “Description of the tasks” in the time – sheets does not indicate the activities performed.</p> <p>Control Body has to verify the activities as required in the contract to guarantee effective implementation of the action. All the required documents, including timesheets, have to be filled in full following the agreed templates, in order to insure adequate supporting documents and audit trail.</p> <p>Level of priority: <i>Intermediate</i></p>	
3.	<p>Ineligible expenditure for funding in the period covered by the II Interim Report and ineligible expenditures in respect to the activity 5.7.15 - Insurance for participants for trainings and exercise in Albania</p> <p>(Project: CFCU/MNE/050 “Disasters do not know borders”)</p>	CB	<p><b><i>Not implemented</i></b></p> <p>For the activity 5.7.15 - Insurance for participants for trainings and exercise in Albania, AA has a confirmation that this cost has been verified and approved by CFCU Montenegro. On this regard amounts of 56,94 € and 3,99 € of related indirect costs are not considered ineligible.</p> <p>Likewise, amount of 51,40 € and 3,60 € of related indirect costs should be reported as cost recognised in the next period when it is incurred, paid and accepted and correspond to actual costs proven by supporting documents.</p> <p>Level of priority: <i>Major</i></p>	Immediately
4.	<p>Ineligible Human Resources expenditure</p> <p>(Project: CFCU/MNE/055 “Augmenting Cooperation – from Christina Antiquities</p>	CB	<p><b><i>Not implemented</i></b></p> <p>A financial correction of 127,54€ for Human Resources expenditure and 8,92€ of indirect cost is proposed.</p> <p>Level of priority: <i>Major</i></p>	Immediately

	Towards Enhanced Tourism”)			
5.	Ineligible expenditure related to point 4.3 Consumables-office  (Project: CFCU/MNE/055 “Augmenting Cooperation – from Christina Antiquities Towards Enhanced Tourism”)	CB	<b><i>Not implemented</i></b>  According to Annex III of the grant contract “Justification of the Budget for the Action” point 4.3 “Consumables-office (subtotal local office)”, the expenditure foreseen under this budget line is related to office paper, small office supplies, printer cartridges, binders etc.  The declared expenditure related to the mentioned invoices do not comply with the office supplies foreseen at the point 4.3 of the contract budget.  A financial correction of 246,43€ for Consumables-office expenditure and 17,25€ of indirect cost is proposed.  Level of priority: <i>Major</i>	Immediately

None of 6 findings which remained open after the previous Annual Audit Activity Report were closed during the follow up.

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

Not applicable.

**8. OTHER INFORMATION**

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

Not applicable.

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

Not applicable.

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

Not applicable.

## **9. OVERALL LEVEL OF ASSURANCE**

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

The overall level of assurance could not be obtained bearing in mind that Audit Authority did not perform audit of operations in the reference period since no expenditure were declared to the European Commission in the financial year 2021. The assurance on the proper functioning of the management and control system is based only on the result of the system audit (system assessment – please see section 4 above), and taking into account the results of the follow-up of the findings given in the previous years where the management, control and supervision systems is assessed as *works, but some improvement(s) are needed*.

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

The assurance on the Annual Financial Reports or Statements/Annual Account is based on the results of the audit as described in section 6.3 of this AAAR. Therefore, as based on the performed audit of Annual Financial Reports or Statements/Annual Account we have obtained reasonable assurance on the completeness, accuracy and veracity of the amounts declared in the accounts submitted to the Commission for the accounting year 2021, it is appropriate to issue an unqualified opinion on the reliability of Annual Financial Reports or Statements/Annual Account.

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

Not applicable.

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

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

Bearing in mind that no expenditures were declared during the year 2021, the Audit Authority has not been in position to perform audit of transactions/operations regarding the financial year 2021.

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

During the audit of accounts, we identified that financial corrections determined during the audit of operation performed in 2020 in amount of 455,14€ (392,52€ EU part and 62,62€ private contribution), have not been included in financials statement for 2021, i.e. annual accounts (Column: Cost recognized and Open pre-financing) have not been corrected for these amounts. Therefore, this financial correction must be included in next declaration/financial reports.

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

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