



**MONTENEGRO  
AUDIT AUTHORITY**

Nº: 3011-4-06-85/1  
Date: 15<sup>th</sup> March 2018

## **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 2017 – 31<sup>st</sup> DECEMBER 2017**

Podgorica, March 2018

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## **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 to 31<sup>st</sup> December 2017.

In the period January–June 2017 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".

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 2017-2019 and results of performed risk

assessment, all structures and bodies being part of the management, control and supervision system of this Programme were covered by the system audit.

According to the Audit Strategy and performed risk assessment the following audit areas were examined:

- Internal Organization and Human Resources Management – all bodies;
- Administrative Issues – all bodies;
- IT Policy – all bodies;
- Risk Management – all bodies;
- Irregularities – all bodies;
- Internal control – all bodies;
- Internal audit – all bodies;
- Publicity and Visibility – all bodies;
- Communication and Reporting – all bodies;
- Annual Management Declaration.– all bodies
- Financial Management – National Fund, MNE HOS Office, MNE CBC Body, CA/CFCU;
- Accounting - National Fund;
- Bank Account System – National Fund;
- Verification by NAO – NAO Support Office;
- Management verification – MNE HOS Office.

Also, we audited written procedures related to above mentioned audit areas.

In the period January-February 2018 the Audit Authority performed follow-up of the findings and recommendations given in the Final report of performed system audit.

Bearing in mind that no expenditure were declared during the year 2017, the Audit Authority has not been in position to perform audit of transactions/operations regarding the financial year 2017.

In half past of February 2018 Audit Authority performed audit of the annual financial reports for the year 2017 and verified the completeness, accuracy and veracity of the amount declared in the accounts.

### **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) and the Cross-Border Cooperation Action Programme "Montenegro-Albania" for the years 2015-2017 (2015/038-158) 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 shall be located in Montenegrin Ministry of European Affairs and the Contracting Authority in the Montenegrin Ministry of Finance - Central Finance and Contracting Unit (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 shall be located in the Ministry for European Integration;
- Control Body (AL CB) placed in the Ministry of Finance 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 reports on performed audits and carries out a follow-up to assess the time proportional implementation of action plans prepared on the basis of audit recommendations.

The Annual Audit Activity Report sets out, inter alia, any deficiencies found in the management, control and supervision systems and any corrective measures taken or planned by the NAO/NAO Support Office, National Fund 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 2017, audit of annual financial reports for 2017 and assessed the consistency of the management declaration with regard to performed audit work.

Based on the available information the Audit Authority prepares Annual Activity Audit 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**

During 2017, the NAO regularly informed the European Commission and Audit Authority about substantial and planned changes in the system.

### **2.1 Changes in the MCS since last Annual Audit Activity Report in respect to Montenegro**

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

Ms Marija Radenović requested from the Government of Montenegro to be dismissed from the General Director position of Directorate for financing and contracting of EU assistance in the Ministry of Finance (CFCU). At the session held on 23<sup>rd</sup> February 2017, Government of Montenegro adopted the Decision on resignation of Ms Marija Radenović. At the same session, Ms Katarina Živković is appointed as the Acting General Director of CFCU instead of Ms Marija Radenović.

On February 27<sup>th</sup> 2017 (letter N<sup>o</sup>: 06-1044/1), Mr Dragan Darmanović, in his capacity of the NAO and General Director for the State Treasury in the Ministry of Finance informed European Commission and Audit Authority on this functional change.

On the session held on September 14<sup>th</sup> 2017, the Government of Montenegro adopted Decision on appointment of the new Acting General Director of the CFCU Mr Bojan Paunović instead Ms Katarina Živković who is no longer involved in the IPA structures.

Mr Nemanja Katnić, in his capacity of the NAO and State Secretary in the Ministry of Finance informed European Commission and Audit Authority on this functional change on October 11<sup>th</sup> 2017 (letter N<sup>o</sup>: 01-17646/1).

- **Head of National Fund Division**

By the Letter N<sup>o</sup>: 06-1044/1 from 27<sup>th</sup> February 2017, Mr Dragan Darmanović, in his capacity of the NAO and General Director for the State Treasury in the Ministry of Finance informed European Commission and Audit Authority on planned leave of the Head of National Fund Division, Ms Dunja Nelević who left this position on 22<sup>nd</sup> March 2017.

- **Ministry of European Affairs**

Ministry of European Affairs has been established as the outcome of the parliamentary election from October 2016. Mr Dragan Darmanović, in his capacity of the NAO and General Director for the State Treasury in the Ministry of Finance informed European Commission and Audit Authority on this organisational change on April 13<sup>th</sup> 2017 (letter N<sup>o</sup>: 06-1970/1).

- **Head of CBC Body in the Ministry of European Affairs**

By the Letter N<sup>o</sup>: 06-1970/1 from April 13<sup>th</sup> 2017 Mr Dragan Darmanović, in his capacity of the NAO and General Director for the State Treasury in the Ministry of Finance informed European Commission and Audit Authority on personal change in the CBC Body. Mr Miodrag Račeta, has been appointed as the Head of CBC Body in newly Ministry of European Affairs.

- **National IPA Coordinator – NIPAC and Head of Operating structures for CBC programmes – HOS in the Ministry of European Affairs**

On May 9<sup>th</sup> 2017 (letter N<sup>o</sup>: 06-2360/1) , Mr Dragan Darmanović, in his capacity of the NAO and General Director for the State Treasury in the Ministry of Finance in detail informed European Commission and Audit Authority about organisational structures in the newly Ministry of European Affairs.

Namely, the NAO informed about the Ministry of European Affairs continues to perform its activities and tasks on the basis of valid legal bases and relevant agreements and the NIPAC kept its function regarding IPA and became Minister of European Affairs instead of former State Secretary of the Ministry of Foreign Affairs and European Integration.

At the same time HOS for CBC programmes, Ms Ivana Glišević Đurović kept the same IPA function as General Director for European Funds within the Ministry of European Affairs.

- **Head of HOS Office in the Ministry of European Affairs**

Mr Dragan Darmanović, in his capacity of the NAO and General Director for the State Treasury in the Ministry of Finance informed European Commission and Audit Authority on August 3<sup>rd</sup> 2017 (letter N<sup>o</sup>: 06-3882/1) on functional change in the HOS Office. Ms Tatjana Bošković is appointed as Head of HOS Office in the Ministry of European Affairs.

- **National Authorising Officer - NAO**

The Government of Montenegro on its session held on 21<sup>st</sup> September 2017 adopted Decision on appointment of State Secretary within the Ministry of Finance who will perform function of the NAO under IPA perspectives I and II. Function of the NAO is delegated to the State Secretary of the Ministry of Finance. On the October 9<sup>th</sup> 2017, based on the Decision of appointment, Minister of Finance official appointed Mr Nemanja Katnić as NAO.

Mr Nemanja Katnić, in his capacity of the NAO and State Secretary in the Ministry of Finance informed EC and Audit Authority on these functional changes on October 11<sup>th</sup> 2017 (letter N<sup>o</sup>:01-17646/1).

- **Director General of the Directorate for Management Structure - Deputy NAO**

By the Letter N° 01-21222/1 from 1<sup>st</sup> December 2017 the NAO, Mr Nemanja Katnić, has informed EC and Audit Authority that IPA activities of General Director of the Directorate for Management Structure (Deputy NAO) has been performed by Ms Ivana Maksimovic. Ms Maksimovic is appointed by the Government of Montenegro on November 16<sup>th</sup> 2017 as Acting General Director of the Directorate for Management Structure and by the Decision of the Minister of Finance from November 16<sup>th</sup> 2017 as Deputy NAO.

- **Organizational changes in the Ministry of Finance - NFD**

By new Rulebook on internal organization and systematization of the Ministry of Finance which was adopted on 26<sup>th</sup> October 2017, is established new Directorate for managing structure. Within this Directorate there are two divisions: Division for System Supervision (for the support to the NAO) and Division for financial issues (National Fund). By the newly adopted Rulebook, beside positions of Director General who performs function of the Deputy NAO and 2 Heads of the Divisions, 8 more positions are predicted within Directorate, more precisely 4 positions within NAOSO and 4 more positions within NF.

Mr Nemanja Katnić, in his capacity of the NAO informed EC and Audit Authority on these organisational changes on December 1<sup>st</sup> 2017 (letter N°: 01-21222/1).

- **Head of Division for National Fund**

By the Decision of the Minister of Finance N° 01-3813/1 from 28<sup>th</sup> November 2017, Ms Žana Jovanović is assigned to a job position of the Head in the Division for National Fund in the Directorate for Management Structure.

Organisational changes in Ministry of Finance have positive impact on functioning MCSS bearing in mind that by adopting new Rulebook NF and NAO SO have been organised as two separate unit and that predicted number of work posts in CFCU have been increased. However frequent personal changes can negatively affect the implementation of programme. Bearing in mind the frequency of changes, especially in the key positions of the system and that it represents a risk that may affect its functioning this process will be subject of audit engagement in the forthcoming period.

Decision on the appointment of persons responsible for carrying the functions in relation to decentralised and indirect management of pre-accession funds of the European Union (EU) has been adopted in the session of the Government of Montenegro, held on 28<sup>th</sup> December 2017.

## **2.2 Changes in the MCS since last Annual Audit Activity Report in respect to Albania**

During 2017, the following changes occurred in the Albanian Operating structure:

- **Organisational changes in Ministry for European Integration**

- The Ministry for Europe and Foreign Affairs was established with the Decree No.10604, dated 10<sup>th</sup> September 2017 by merging Ministry of Foreign Affairs and Ministry for European Integration.

- The Minister for Europe and Foreign Affairs, Mr. Ditmir Bushati after general election was nominated as NIPAC with the Prime Minister Order N° 151 from 27<sup>th</sup> September 2017.

The Delegation of EU was informed about this change by the official letter N° 13426 from 27<sup>th</sup> September 2017, while the Montenegrin HOS was informed by email sent on 15<sup>th</sup> February 2018.

- The CBC body of Albania and the Head of Operating Structure, Ms Daniela Cekani have been appointed with NIPAC Order N° 50 from 29<sup>th</sup> January 2018. European Commission was not informed about this change because the same person was appointed as HOS, but Montenegrin HOS was informed by email sent on 15<sup>th</sup> February 2018.

### **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 2016. The Audit Strategy was prepared on a tri-annual basis for period 2017-2019 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)
01.01.2017.-31.12.2017.	IPA II 2014-2020 Cross-Border Cooperation Programme Montenegro-Albania (C (2014) 9352)	Audit Authority of Montenegro + Goa members	All bodies within MCSS of the IPA II 2014-2020 CBC Programme Montenegro-Albania	February-June 2018	<ul style="list-style-type: none"> <li>-Internal Organization and Human Resources Management – all bodies;</li> <li>-Administrative Issues – all bodies;</li> <li>-IT Policy – all bodies;</li> <li>-Risk Management – all bodies;</li> <li>-Irregularities – all bodies;</li> <li>-Internal control – all bodies;</li> <li>-Internal audit – all bodies;</li> <li>-Publicity and Visibility – all bodies;</li> <li>-Communication and Reporting – all bodies;</li> <li>-Annual Management Declaration.– all bodies</li> <li>-Financial Management – National Fund, MNE HOS Office, MNE CBC Body, CA/CFCU;</li> <li>-Accounting - National Fund;</li> <li>-Bank Account System – National Fund;</li> <li>-Verification by NAO – NAO Support Office;</li> <li>-Management verification – MNE HOS Office.</li> <li>-Written procedures related to above mentioned audit areas.</li> </ul>	<p><i>Findings related to Montenegro</i></p> <ul style="list-style-type: none"> <li>1.Understaffing - NF/NAOSO, NIPAC Office, IA/CFCU;</li> <li>2.Inadequate Retention Policy – all IPA Bodies;</li> <li>3.Deficiency in the process of the Risk Management – all IPA Bodies</li> <li>4.Deficiency in the MoP Written Procedures - NF/NAOSO, HOS office, CBC Body, IA/CFCU;</li> <li>5.Lack of the Programme level control procedure - NAO, HOS/HOS Office, CBC Body, IA/CFCU;</li> <li>6.Inadequate backup of data and insufficient number of trainings related to IT - NF/NAOSO, HOS Office, CBC Body, IA/CFCU;</li> <li>7. Lack of internal audit function - NIPAC Office, HOS Office, CBC Body</li> <li>8.Disrespecting of procedures related to the Planning of EU Funds - HOS Office, CBC Body, IA/CFCU</li> <li>9.Disrespecting of procedures related to the Changes in the MCSS - HOS Office, CBC Body, IA/CFCU</li> <li>10. JMC and JTS Activities - NIPAC Office, HOS Office</li> <li>11. Organizational structure NF and NAOSO - NF/NAO SO</li> <li>12.Insufficient number of staff in the Internal Audit Department - NF/NAOSO, IA/CFCU</li> <li>13.Reporting in respect to Monthly Progress - HOS Office, IA/CFCU</li> <li>14.Deficiency in Work Load Analysis - HOS Office</li> <li>15.Lack of procedures in respect to the new Information System - HOS Office</li> <li>16.Implementation of the Annual on-</li> </ul>	-	-	<p><i>Montenegro</i></p> <p>OPEN findings no. 1,2,3,4,5,6,8,9,12, 13,15,16,19,20,21, 22</p> <p>CLOSED findings no. 7,10,11,14,17,18,23</p> <p><i>Albania</i></p> <p>OPEN findings no. 1,2,5,6,7,8,9,10,12</p> <p>CLOSED findings no. 3,4,11</p> <p>For more details please refer to the point 4.4 of this report</p>

					<p>the-spot checks Plan - HOS Office</p> <p>17.Deficiencies in Annual Work Plan - CBC Body</p> <p>18.Deficiencies in Work Load Analysis - CBC Body</p> <p>19.Deficiencies in Work Load Analysis - CFCU</p> <p>20.Deficiency in the Annual Work Plan - CFCU</p> <p>21.Disrespecting of the Substitution Policy and Handover Procedures - CFCU</p> <p>22.Inadequate premises and archiving space - CFCU</p> <p>23.Deficiency in Work Load Analysis – NIPAC Office</p> <p><i>Findings related to Albania</i></p> <p>1.Deficiencies in the process of issuing Annual Management Guarantee - HOS, CBC Body, Control Body</p> <p>2.Lack of Inter-institutional agreements (Implementing and/or Operational Agreement) and adequate Legal Basis - NIPAC, HOS, CBC Body, Control Body</p> <p>3.Deficiencies in the performance of internal audit functions and staff capacity - NIPAC, HOS, CBC Body</p> <p>4.Inadequate Central IT Room - NIPAC, HOS, CBC Body</p> <p>5.Lack of ICT Infrastructure - HOS, CBC Body, Control Body</p> <p>6.Deficiencies in the Risk Management procedures - HOS, CBC Body, Control Body</p> <p>7.Lack of Internal Control procedures - HOS, CBC Body</p> <p>8.Lack of Irregularities procedures - HOS, CBC Body</p> <p>9.Lack of Work Load Analysis, Recruitment plan and Job descriptions - HOS, CBC Body</p> <p>10.Inadequate Human Resource policy (Training and Substitution Plan, Handover and Sensitive Posts) - HOS, CBC Body</p> <p>11.Inadequate premises and equipment -</p>		
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						<p>CBC Body, Control Body  12. Understaffing, Deficiencies in the  Job descriptions and lack of Individual  Training register – Control Body</p> <p><u>Audit conclusion</u>  Category 2 - Works, but some  improvements are needed.</p> <p>For more details please refer to the point  4.4 of this report</p>		
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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 2017-2019 and results of performed risk assessment, all structures and bodies being part of the management, control and supervision system of this Programme were covered by the system audit.

According to the Audit Strategy and performed risk assessment the following audit areas were examined:

- Internal Organization and Human Resources Management, Administrative Issues, IT Policy, Risk Management, Irregularities, Internal control, Internal audit, Publicity and Visibility, Communication and Reporting, Annual Management Declaration – all bodies;
- Financial Management – National Fund, MNE HOS Office, MNE CBC Body, CA/CFCU;
- Accounting - National Fund;
- Bank Account System – National Fund;
- Verification by NAO – NAO Support Office;
- Management verification – MNE HOS Office.

Also, we audited written procedures related to above mentioned audit areas.

The system audit encompassed the period from 28<sup>th</sup> December 2015<sup>1</sup> to 30<sup>th</sup> June 2017. The Final Audit Report was issued on 4<sup>th</sup> December 2017 and submitted to European Commission on 5<sup>th</sup> December 2017.

#### **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 2017-2019 the Audit Authority performed a detailed risk assessment to determine the bodies and priority processes in conducting system audits.

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),
- *EC Guidance document on a common methodology for the assessment of management and control systems in Member States* and
- *EC Guidance on sampling methods for audit authorities*.

During risk assessment, risks were identified and taken into account at the programme/structures and authorities level and process level. Specific risk factors have been assessed for each body and process. 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 and processes are ranked according to the total score.

According to the results of performed risk assessment, all structures and bodies being part of the management, control and supervision system of this Programme were covered by the system audit. The following audit areas were examined: Internal organization and Human Recourses, Administrative issues, IT Policy, Risk Management, Irregularities, Internal Control, Internal Audit, Publicity and Visibility, Communication and Reporting, Annual Management Declaration, Financial Management, Accounting, Bank Account System, Verification by NAO and Management Verification. Also, we audited written procedures related to above mentioned audit areas.

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<sup>1</sup> We defined that audit period will be from 28<sup>th</sup> December 2015 (Date of entry into force Financial Agreement between European Commission and Government of Montenegro)

#### **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 27 findings related to Montenegrin bodies: 23 are intermediate and 4 are minor. After follow up of recommendation performed in January and February 2018 we had 1 major (1 intermediate finding has been raised up on major), 13 intermediate and 5 minor findings. 8 findings have been closed. In respect to Albanian bodies we identified 13 findings during the audit: 1 major, 11 intermediate and 1 minor. After follow up we had 9 intermediate and 1 minor findings. 3 findings have been closed.

Further below there is a description of the most important findings (major and intermediate). Recommendations provided for correcting the findings detected as well as information on the measures undertaken for the purpose of eliminating the findings are laid down.

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

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

###### **1. Understaffing**

ICF requirement:

###### *1. Control environment*

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

*Level of priority: Intermediate*

*Body/-ies concerned by the finding: NF/NAOSO, NIPAC Office, IA/CFCU*

On the basis of Rulebooks on internal organisation and systematisation, as well as the results of WLAs, we determined lack of staff in all bodies responsible for implementation of Programme.

Namely, according to the Rulebook on internal organization and systematization of Ministry of Finance eight (8) working posts including NAO is envisaged in the Division for National Fund which perform the function of National Fund and NAO Support Office. According the results of the Work Load Analysis ten (10) persons are required to perform activities of NF and NAOSO. In the period of performing the audit seven (7) persons have been employed on the basis of Long-term employment contract. Position of Head of NF is currently vacant. Additionally, one of the financial controllers is on a longer period of absence.

The Rulebook on internal organisation and systematisation of Ministry of European Affairs, which is adopted on the 16<sup>th</sup> February 2017, predicts ten (10) positions in the NIPAC Office. The current number of staff is seven (7). Six (6) employees are employed on the basis of Long Term Employment Contract and one (1) employee on the basis of Temporary Employment Contract. The WLA shows the need for nine (9) persons.

As for the CFCU, Rulebook on internal organisation and systematisation of Ministry of Finance predicts twenty-one (21) positions in the Directorate for Finance and Contracting of the EU Assistance Funds. The current number of CFCU staff is nineteen (19). Eighteen (18) persons are employed on the basis of Long-term employment contract and acting General Director has been appointed. The WLA's result for 2017 is thirty-seven (37) positions which indicate to high level discrepancy in relation to current number of employees as well as the number of staff foreseen in the valid Rulebook. Additionally, in the WLA minimum requirements for number of needed Accountants positions has not been fulfilled. Namely, only one Accountant is engaged which is not in accordance with the written procedures and substitution policy.

## **Recommendation:**

We recommend taking appropriate measures in order to employ necessary number of staff in accordance with the results of WLAs.

Implementation deadline: December 2017

## **Follow up of implementation of recommendation:**

**Status:** Partly implemented

**Level of priority:** Intermediate

Some progress has been made. New Rulebook on internal organization and systematization of Ministry of Finance was adopted. According to new Rulebook, NF and NAOSO have become two Divisions within Directorate for the Management Structure with 11 foreseen job positions (Director General, 5 positions in NF and 5 positions in NAOSO). Acting Director General of Directorate for the Management Structure has been appointed on 16<sup>th</sup> November 2017 by the Government Decision. 4 person has been employed in NFD on the base of LTEC including the Head of NFD. In the NAOSO 2 persons have been employed on the base of LTEC and 1 person on the temporarily base. The position of Head of NAOSO is currently vacant.

According to new Rulebook of Ministry of Finance, 37 job positions are foreseen in CFCU. Currently, 24 persons are employed (17-LTEC, 7-TEC). The WLA's result for 2017 and 2018 is thirty-seven (37) positions which still indicate to high level discrepancy in relation to current number of employees.

Additionally in the CFCU it is evident that minimum requirements for number of needed Accountants positions has not been fulfilled. Namely, only one Accountant is engaged which is not in accordance with the written procedures and substitution policy.

In NIPAC Office one more person was employed on the base of Long Term Employment Contract and one person on temporarily base during 2017 so currently 8 persons are employed. Results of WLA for 2018 show need for two more persons.

The finding remains open. Implementation of the recommendation will be monitored in the following period.

## **2. Inadequate Retention Policy**

ICF requirement:

1. *Control environment*

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

**Level of priority:** *Intermediate*

**Body/-ies concerned by the finding:** *NF/NAOSO, NIPAC Office, HOS office, CBC Body, IA/CFCU*

Retention policy shall be based on the Law on Civil Servants and State Employees and lead by the Human Resources Management Authority. Retention Policy aims at ensuring the retention of staff in IPA Body and promoting their effectiveness.

In previous couple of year the IPA Bodies employees had the opportunity to absorb knowledge and gain practical experiences within implemented technical assistance projects. A number of trainings, seminars, study visits, workshop have been organised aiming to upgrade professional knowledge and the opportunities for continuing professional development of IPA Bodies staff.

Nevertheless, based on insight in the IPA Bodies staff overview it is evident that, during 2016-2017, a number of employees left their positions. Staffing situation can be assessed as not adequate, having in mind discrepancy between current number of staff and WLA results, in all IPA Bodies. These leads to the conclusion that there is work overload in case of some positions where the gap exist between current and required number of staff exists.

Based on the conducted interview with the IPA Bodies staff, it is evident that the retention and motivation policy is at the lowest level. It is evident that human resource policy, including staff

retention policy, has not been fully implemented and there are no practical measures and instruments for fully implementation of retention and motivation policy. This particularly refers on the procedures in respect to salary scales and remuneration package.

### **Recommendation**

Human resources policy must ensure business continuity. Having in mind that frequent staff turnover can negatively influence on established system and its effectiveness, retention and motivation policy should be treated with highest importance.

Adequate human resources policy, including staff retention policy, investing in people, should be defined and implemented by high level officials and should be agreed at the highest level of Government of Montenegro.

The consultation meeting, as well as clear proposal for staff motivation and retention mechanisms should be initiated by high level authorities.

Implementation deadline: December 2017

### **Follow up of implementation of recommendation:**

**Status:** Not implemented

**Level of priority:** Intermediate

Certain steps aimed at defining the measures which could increase motivation of employees dealing with IPA tasks have been undertaken. However it has not been fully implemented yet. The finding remains open.

### **3. Deficiency in the process of the Risk Management**

ICF requirement:

#### *2. Risk Management*

(b) Risk identification, assessment and response

*Level of priority: Intermediate*

*Body/-ies concerned by the finding: NF/NAOSO, NIPAC Office, HOS office, CBC Body, IA/CFCU*

During the audit we determined that IPA Bodies performed Risk management process according practical guidelines for the implementation of the IPA risk management activity, using principal documents needed for the successful implementation: Risk Alert Form; Risk Register and Risk Action Plan.

However, by the insight into the Action Plans of IPA Bodies certain high level risks are identified, for which mitigating actions overcome the competence of the IPA body. Also the number of risks identified in the Action Plans is present for a long period. For example, risk regarding the CFCU premises, which is important for all components/areas, is assessed as high and present from July 2015. The CFCU is still in the same premises.

Also, the outflow of trained staff, both at managing and operative level was identified at the very beginning of programs implementation from IPA I perspective and constantly present in all institutions up to now, affecting the programs from IPA II perspective, including CBC Programmes. Therefore it has been determined that no adequate measures have been taken with a view to conducting retention policy. Inadequate management of this risk led to outflow of staff with the proper knowledge and experience, which significantly affects the smooth implementation of the CBC Programmes.

Additionally, during the audit we have identified that way of filling the Risk Alert Form in the NFD and CFCU was not in line with procedures. Namely, both NFD and CFCU have one cumulative RAF each for all risky situations they identified in the period under review. Such a form of RAF does not provide an adequate audit trail, since there is no information when and by whom each risk is identified.

In respect to the CBC Body, analysing the Risk Alert Forms we determined that all risks had being identified and Risk Alert Forms fulfilled once prior the holding of Risk Management panel in July 2016. The same risks were identified and the same RAF were fulfilled again prior the holding of second RMP in December 2016. Risk Alert Forms were fulfilled two times for the same risks. Examining Risk Register and Risk Action Plan we determined that risks are always assessed with the same level of impact and likelihood although some mitigation actions were already implemented. Risk Register in part of the risk assessment and risk score is not updated.

Additionally, in conversation with Risk manager in the CBC Body we were told that RAF and RR had not been sent to RMC by e-mail or via regular post before RMP meeting, but were delivered at meeting itself, so there is no audit trail that it had been really submitted to Risk Management Coordinator. Beside that Risk Manager did not participate on meeting held on 25<sup>th</sup> July 2016.

During the audit we also determined that employee who was appointed as a Risk Manager in the HOS Office has been assigned on another work post out of HOS Office. A new Risk Manager is not appointed yet.

### **Recommendation:**

We recommend:

- Convoking ad-hoc Risk Management Panel with the presence of high level authorities, the NAO, NIPAC, HOS, and Heads of other OS bodies, in order to prepare the adequate Risk Action Plan for overcoming or mitigation of the risky situations in shortest time.
- Preparing of Risk Alert Form for every single risky situation recognized by any staff member in the NFD and CFCU.
- Following the risks by CBC Body identified and filled-in in RAF through Risk Register and Risk Action Plan (without a need for completing RAF again before risk management panel meeting) as well as updating Risk Register in the part of risk score bearing in mind that some risks have been mitigated. Additionally, Risk Manager should submit Risk Register and Risk Action Plan by e-mail or via regular post before the risk management panel meeting in order to ensure adequate audit trail and regularly attend meetings in the future.
- Appointing as a Risk Manager a person who is permanently employed in the HOS Office bearing in mind importance of risk management process and role of Risk Manager.

Implementation deadline: December 2017

### **Follow up of implementation of recommendation:**

**Status:** Partly implemented

**Level of priority:** Intermediate

Some progress has been made. Awareness of the importance of including high level authorities and top management in the risk management process has been raised. Coordination meetings with NAO and all IPA structures were held during January 2018. However certain high level risks still exist. It is necessary to take further measures for their mitigation and removal.

Part of recommendation related to Risk Alert Form of NFD and CFCU has not been implemented and will be monitored in the following period.

In respect to CBC Body, recommendation was fulfilled in part related to Risk Alert Forms. However Risk Register has not been updated in respect of risk score in accordance with taken mitigation measures.

New Risk Officer in HOS Office has been appointed by Decision N<sup>o</sup> 06/1-1008/2 from 19<sup>th</sup> December 2017. Risk Manager is a person permanently employed in HOS Office and this part of recommendation has been implemented.

#### 4. Deficiency in the MoP Written Procedures

ICF requirement:

1. *Control environment*

(c) Establishment of structures, reporting lines, and authorities and responsibilities

3. *Control activities*

(a) Selection and development of control activities

**Level of priority:** *Intermediate*

**Body/-ies concerned by the finding:** *NF/NAOSO, HOS office, CBC Body, IA/CFCU*

Processes of performing IPA bodies' tasks and activities have been formalised and documented in the Manual of Procedures (hereinafter MoP). However, during carrying out the audit we determined that some MoP chapters, such as Legal basis, Irregularities, Communication and Reporting, Internal Control, Annual Management Declarations, Financial Management and Management Verifications are not clearly described and harmonized.

The MoP Chapter Legal Basis is not regularly updated and not in accordance with the amendments of national legal acts (for example: Law on Civil Servants and Employees, Law on salaries in public sector pay, Law on Labour, Decree on organisation of the indirect management for implementation of Union financial assistance under Instrument for pre-accession assistance, Decisions on appointments of individuals etc.). Additionally, some agreements/arrangements, such as bilateral arrangements regulating relations between Montenegro and partner countries have not been specified in the above mention Chapter.

The MoP Chapter Irregularities does not contain template for the annexes related to the supporting documents for Immediate Irregularity Report (Standard Explanatory Letter and Completed Standard Form of the irregularity report) neither for supporting documents related to Quarterly Irregularity Report (Completed Standard Forms). In addition, there is evident lack of template for the annex Special Report for Section 8.10 Reporting on Follow-up and Chapter Irregularities (Section 7.3 Recording of irregularities in accounting system) is not interconnected with the Chapter Accounting (Section 7 Financial Statements). Only the obligation of recording of irregularities in accounting system is prescribed. Procedures in respect to Quarterly reporting have not been clear set-up. Namely, communication between Heads of CFCU and CBC Body and HOS has not been described.

The MoP Chapter Communication and Reporting is not in line with the MoP Chapters Internal Control (process of reporting in respect to reports on substantial changes in the internal control system, reports on the follow-up regarding internal and external audit findings and exception requests), Annual Management Declaration (process of submitting supporting documentation and declaration) and Financial Management (process of reporting and submission of Monthly Progress report). Additionally, it is evident that there is mismatch between Flow chart, Section 2 Reporting system in Montenegro under IPA II - Picture N° 2 and text below the picture.

The MoP Chapter Internal Control procedures described in part Recording and correction of internal control weaknesses are not clear. Follow up status report outlined in above mentioned part doesn't exist as a separate annex. Annex 7 is used as Action plan and follow up report. This annex is not in line with the description of the follow up report presented in the MoP. Part Recording and correction of internal control weaknesses also includes Annex 5 – Register of internal control weaknesses. In the MoP it is stated that internal control weaknesses can be identified in: risk analysis, internal and external audit, EC mission reports, OTSCs, etc. The submitted annex doesn't contain weaknesses identified in EC mission reports.

The MoP Chapter Annual Management Declaration contains annexes, which are not in line with the written procedures. Namely, Annual Management Declaration Checklists don't over all relevant resources which need to be used. Do not contain the KPI and the verifications performed by NAO and HOS as resources. It means that there are no adequate trails that those two resources are also used and may has an impact on quality of issued AMD.

The MoP Chapter Financial Management's description of the procedures related to the part of Planning of EU and National contributions is not in line with the Financial Agreement, Framework Agreement, Implementing Regulation and CBC Action programme, which don't predict planning of

National contributions. Additionally, some annexes do not predict the possibility to be reviewed/ checked/ commented/ verified or approved by the relevant authorities (Head of HOS Office, Head of CBC Body, Head of Financial Division and/or Head of CFCU). Procedures for issuing Monthly reconciliation form (e.g. time, deadline or period when the Head of CFCU shall submit First monthly reconciliation form) neither the procedures in respect to Read and Approved visa/Provisional or Final acceptance certificate/Notification letter showing the approved amount/recognized costs have not been defined as well as annexes for this process have not been developed. According to the MoP, for the purpose of monthly reconciliation “State Treasury Directorate prepares and submits to the IA filtered report related to the transactions i.e. payments of the IA during the day” which is not in line with the Directions on State Treasury Operations (OG MN N° 20/14). The new information system, which includes procedures for financial management and accounting and MoP Chapter Financial Management are not aligned. Difference between procedures described in the MoP and procedures within new information system could lead to the errors and irregularities.

The MoP Chapter Management Verifications describes procedures in respect to controls which shall be carried out by means of regular administrative (desk-based documentary checks) and on-the-spot checks. The procedures in respect to System Level verifications are clear in all segment. However, the procedures in respect to Transaction Level are set up but not clear described and not in line with the procedures prescribed in the Chapter Financial Management. Namely, Chapter Management Verification contains procedures in respect to the HOS obligation to check Statement of expenditure submitted by the IA, which is not recognised as HOS role in Chapter Financial Management. Checklist for System and Transaction level are developed but mismatches between procedures in respect to transaction control and Checklist for Transaction level verifications is evident. It may cause dilemmas and inappropriate implementation of tasks and responsibilities during the process. Additionally, terminology and technical mismatches are evident in the valid version of MoP.

**Recommendation:**

Having in mind the fact that the MoP is main tool used by each IPA Body employee in their daily work, the need for adjustment and upgrade of valid MoP version is required. Procedures within MoP should be feasible, understandable and in line with relevant legislations. Additionally, it is necessary to develop and align all annexes with described procedures in the relevant chapters, as well as harmonise chapters with each other.

In order to upgrade the level of management control, all annexes have to predict the possibility for management to control and verify relevant documents and annexes.

MoP terminology and technical mistakes have to be addresses in the new MoP version in order to avoid possible misunderstanding and different interpretations among all relevant employees.

Implementation deadline: December 2017

**Follow up of implementation of recommendation:**

**Status:** Not implemented

**Level of priority:** Intermediate

Some progress has been made. New version of MoP is under preparation. The finding remains open.

**5. Lack of the Programme level control procedure**

ICF requirement:

1. *Control environment*

(c) Establishment of structures, reporting lines, and authorities and responsibilities

**Level of priority:** *Intermediate*

**Body/-ies concerned by the finding:** *NAO, HOS/HOS Office, CBC Body, IA/CFCU*

Programme level control procedures in respect to the CBC Programme "Montenegro-Albania" have been drafted but they have not been approved and endorsed by relevant authorities from both partner countries side.

Additionally, Programme procedures don't describe detailed procedures in respect to horizontal processes (Human Resources, Irregularities, Risk Management, and Annual Management Guarantee etc.) It may have an impact on inappropriate implementation of tasks and responsibilities during different processes.

**Recommendation:**

In accordance with the provisions and responsibilities stipulated in the signed Bilateral Arrangement, as well as with aim to ensure proper planning, timing and responsibilities of activities needed to deliver objectives, we recommended finalising, approving and endorsing Programme level control procedures in respect to CBC Programme "Montenegro-Albania".

Implementation deadline: December 2017

**Follow up of implementation of recommendation:**

**Status:** Not implemented

**Level of priority:** Major

Programme level control procedures has not been improved, finalized and approved yet.

Having in mind the role of Operating Structure bodies from both countries, obligation to define each stage and processes of Programme implementation, the fact that Montenegrin/Albanian IPA Bodies do not possess endorsed procedures can significantly damage continuation of Programmes implementation and established financial and control system. For this reason, the level of priority has been raised to the major.

**6. Inadequate backup of data and insufficient number of trainings related to IT**

ICF requirement:

1. Control environment

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

3. *Control activities*

(b) Security control activities

**Level of priority:** *Intermediate*

**Body/-ies concerned by the finding:** *NF/NAOSO, HOS Office, CBC Body, IA/CFCU*

Annex 1 of the MoP Chapter IT Policy prescribes detailed procedures for back up of data, archiving data, user coordination and reconciliation.

Additionally, according to the prescribed procedures within MoP IT Coordinator shall ensure that the IPA Body staff receive necessary training on IT security issues and also is defined what this kind of training should include.

On the bases of performed on-the-spot checks and conducted interviews, we have found that archiving and backup of data is not performed in accordance with prescribed procedures. There is no properly defined back up storage. So, there is a risk of loss of data in case of error in information systems in which information is destroyed by failures or negligence in storage, transmission, or processing. To mitigate the risk of losing data, the OS Bodies staff use external hard disk and USB disks for archiving data from their computers. They perform this periodically and previously mentioned external hard disk is stored in the OS Bodies premises. However, archiving data on this way is not secure enough and is not in accordance with prescribed procedures for back up and archiving data which are described.

Also, we have concluded that employees from IPA bodies did not have enough training related to IT security policy. During the last two years insignificant number of employees has attended few

trainings related to cyber security and computer data protection.

Bearing in mind the importance of IT security, using file servers, having adequate and secure data storage, employees from IPA bodies should have more trainings with regard to this policy.

**Recommendation:**

We recommend providing adequate archiving and back-up of data according to described procedures in order to prevent data loss or ensure restoring of lost data and initiating and providing trainings related to IT Security policy.

Implementation deadline: December 2017

**Follow up of implementation of recommendation:**

**Status:** In progress

**Level of priority:** Intermediate

Compared to the previous period a significant progress is being made towards raising awareness on IT security and providing adequate archiving and back-up of data. However, this finding remains open.

**7. Lack of internal audit function**

ICF requirement:

5. *Monitoring of internal control framework*

a) On-going and specific monitoring

**Level of priority:** *Intermediate*

**Body/-ies concerned by the finding:** *NIPAC Office, HOS Office, CBC Body*

In accordance with the Article 18 of the Law on the System of Internal Financial Control in Public Sector "entities are obliged to establish internal audit in one of the following ways:

- By organizing an independent organizational internal audit unit within the entity which will report directly to the head of the entity;
- By agreement that internal audit shall be performed by the internal audit unit of another entity or local government unit, subject to the prior approval of the Ministry of Finance.

Internal audit units of the Entities shall perform internal audit of the units that are the users of budget funds within budget funds of the entity, if they do not have their unit established".

During the audit we determined that internal audit function has not been established within the Ministry for European Affairs in any manner prescribed by Law on the System of Internal Financial Control in Public Sector. Namely, Internal Audit Unit is not foreseen within the Ministry by Rulebook on internal organization and systematization nor was agreement signed with other entity in order to ensure conducting of internal audit function by internal audit unit of that entity.

**Recommendation:**

We recommend establishment of internal audit function in accordance with the Article 18 of the Law on the System of Internal Financial Control in Public Sector.

Implementation deadline: December 2017

**Follow up of implementation of recommendation:**

**Status:** Closed

Ministry of European Affairs concluded the Agreement on entrusting the internal audit tasks with the Ministry of Finance which ensures conducting of internal audit function.

## **8. Disrespecting of procedures related to the Planning of EU Funds**

ICF requirement:

### *1. Control environment*

(c) Establishment of structures, reporting lines, and authorities and responsibilities

### *3. Control activities*

(a) Selection and development of control activities

**Level of priority:** *Intermediate*

**Body/-ies concerned by the finding:** *HOS Office, CBC Body, IA/CFCU*

Specific operational procedures in respect to planning of EU contributions are not fully implemented and respected by relevant authorities. Namely:

- The Head of CFCU submitted the Budget Plan with all supporting documents only to the HOS, but not to the Head of CBC Body.
- As regards annual budget negotiation procedures, the CFCU representatives participated in the process with the Budget Directorate but the result of the negotiations between CFCU and Budget Directorate has not been submitted to the HOS.
- Checklists for Request for allocation of budgetary funds has been prepared and signed in accordance with the written procedure by CFCU, but it has not been submitted, as part of documentation package, to the HOS, NAO and Budget Directorate.
- Procedures in respect to submission of documents for final approval to the CFCU have not been fully respected by HOS/HOS Office. Namely, the HOS Office staff didn't perform controls prescribed in the MoP, prepare Cover Letter and submit it to the relevant authority. Additionally, Checklists for Request for allocation of budgetary funds have not been prepared and signed in accordance with the written procedure. Nevertheless, it has not been submitted, as part of documentation package, to the Head of CFCU.

Inadequate application of defined procedures in respect to financial management may cause deficiencies and non-proper flow of information between relevant entities. All relevant information must be distributed to the all interest parties in order to ensure efficient and effective system functioning.

### **Recommendation:**

We recommend respecting written procedures in respect to the planning of EU contributions.

Implementation deadline: December 2017

### **Follow up of implementation of recommendation:**

**Status:** Partly implemented

**Level of priority:** Minor

It is evident progress in respect to the planning EU funds.

It is necessary to raise the awareness of IPA Bodies staff on written procedures in respect to the financial management. Implementation of the recommendation will be monitored in the following period.

## **9. Disrespecting of procedures related to the Changes in the MCSS**

ICF requirement:

### *2. Risk Management*

d) Identification and assessment of changes affecting the system of internal controls

**Level of priority:** *Intermediate*

**Body/-ies concerned by the finding:** *HOS Office, CBC Body, IA/CFCU*

According to the procedures, all planned changes should be submitted to the NAO and HOS prior to their implementation. The requesting body should provide a description of the planned change, the reasons for it and the consequences of such change on the validity of the entrusted budget implementation tasks. It's on NAO to decide whether the change should be considered as minor or substantial and whether the change should be notified to the EC.

Analysing collected data and information from the HOS Office and CBC Body, we identified that there were several changes (personal and organisation changes in the Ministry of European Affairs) in the management and control system, (e.g. Appointment of the new HOS, new Head of the CBC Body, new Head of the HOS Office, change in the structure of the ministry were HOS Office and CBC body are established and related to that adoption of a new Rulebook on internal organisation and systematisation. Except for the change of the Head of the HOS Office, for which NAO was informed prior to the implementation, for all other occurred changes, NAO has been informed subsequently (in some cases more than three months later). In case of CFCU the Head of CFCU left her position, about what the NAO and HOS for components III and IV were informed, but the HOS for CBC programmes was not informed.

**Recommendation:**

We recommend respecting defined procedures related to changes in the management and control system.

Implementation deadline: December 2017

**Follow up of implementation of recommendation:**

**Status:** Not implemented

**Level of priority:** Intermediate

The finding remains open. Implementation of recommendation will be monitored in following period.

**10. JMC and JTS Activities**

ICF requirement:

1. *Control environment*

(c) Establishment of structures, reporting lines, and authorities and responsibilities

**Level of priority:** *Intermediate*

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

Representatives of the Government of Montenegro in the Joint Monitoring Committees (hereinafter referred to as the JMC) are designated by the NIPAC, in accordance with the procedures. However, it is evident that nominations of JMC members have not been regularly updated since members who are not employees of relevant Ministries anymore are still included.

As regards Joint Technical Secretariat (hereinafter referred to as the JTS), Manual of Procedures has been prepared, but has not been approved by HOS. The fact that JTS does not possess endorsed procedures can significantly damage continuation of implementation and established financial and control system. The prolongation of current situation would lead to unsafe and unclear JTS position and may raise the question on validity of JTS activities that hare conducted on daily basis.

## **Recommendation:**

We recommend:

- Conducting activities with a view to regular updating of Decision on amendment Decision on appointment JMC members for each CBC programmes.
- Approving JTS Manual of procedures, as soon as possible.

Implementation deadline: December 2017

## **Follow up of implementation of recommendation:**

**Status:** Implemented

Decision on Appointment of JMC members for the CBC Programme "Montenegro- Albania" 2014-2020 was issued in March 2016 and amended in October 2017. JTS MoP was adopted on 10<sup>th</sup> November 2017.

The finding is closed.

## **11. Organizational structure NF and NAOSO**

ICF requirement:

1. *Control environment*

(c) Establishment of structures, reporting lines, and authorities and responsibilities

**Level of priority:** *Intermediate*

**Body/-ies concerned by the finding:** *NF/NAOSO*

According to the Article 10 (2) of the Framework Agreement between Government of Montenegro and European Commission "the NAO shall establish a management structure composed of a National Fund and a support office for the NAO."

According to Clause 3 of Annex A of the IPA II FWA "The management structure shall be composed of a National Fund and a support office for the NAO. The tasks and responsibilities of the National Fund and the support office shall be adequately segregated."

National Fund should be responsible for financial management of IPA II assistance, in particular for holding and organising the central IPA bank accounts, requesting funds and receiving all payments from the Union budget, ensuring transfer of funds to the operational structure or recipients, ensuring existence of accrual-based accounting, returning funds to the Union budget, preparing and submitting financial reports to the Commission etc.

On the other hand, NAO Support Office should be in charge of supporting the NAO in order to ensure the effective functioning of the internal control systems for the implementation of IPA II assistance in accordance with Annex B of Framework Agreement. NAO SO should be responsible for providing assurance about the legality and regularity of underlying transactions, putting in place effective and proportionate anti-fraud measures and ensuring the identification and immediate communication of any irregularity, taking responsibility for monitoring the continuous fulfilment by the management structure and the operating structures of the applicable requirements in respect to entrustment of budget implementation tasks, ensuring the existence and effective functioning of the internal control systems for the implementation of IPA II assistance as well as reporting on the management and control systems etc.

In the frame of its tasks, NAOSO is in charge of monitoring and supervision of efficiency of NF, as a part of management structure, in performing its duties and fulfilment of set requirements. In this regard, it is necessary to ensure that NF and NAOSO are established as two separate units.

However, management structure is established on the way that function of NF and NAO SO are performed by the same Division for National Fund within Ministry of Finance which means that NF and NAO SO are not operationally and functionally separated and independent. The cause for this is that valid Rulebook of internal organisation and systematisation predicts that all tasks within the competence of NF and NAO SO are organised within the same Division, i.e. Division for National

Fund and managed by Head of National Fund who performs final verifications in most important processes. It may have an impact on overlapping the functions, leads to a conflict of interest of a member of the staff, and limits the implementation of the "four eye" principle and adequately performance of tasks and duties of National Fund and NAO Support Office.

**Recommendation:**

We recommend organizational and functional separation between National Fund and NAO Support Office in order to ensure efficiency and regularity in fulfilling the tasks within their competence.  
Implementation deadline: December 2017

**Follow up of implementation of recommendation:**

**Status:** Implemented

New Rulebook on internal organisation and systematisation of Ministry of finance has been updated and adopted in accordance with the recommendations. The finding is closed.

**12. Insufficient number of staff in the Internal Audit Department**

ICF requirement:

*1. Control environment*

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

*Level of priority: Intermediate*

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

According to the Rulebook on internal organization and systematization of the Ministry of Finance (NFD and CFCU are under the Ministry of Finance) seven (7) work posts have been envisaged in the Internal Audit Department (IAD) including Head of IAD and six (6) auditors. Currently five (5) auditors have Decisions on allocation on work posts in this Department and adequate certificate for performing internal audit. However, one (1) auditor is on maternity leave and another is working part time (4 hours) which means that just three (3) employees are dealing with internal audit matters (full time). Beside audit within MF, Minister of the MF has signed agreements with additional seventeen (17) state bodies to implement internal audit for them.

The WLA for 2017 has shown the necessity for eight (8) staff member. It is determined that WLA does not include delegated activities of conducting internal audit for seventeen (17) state bodies which brings to the conclusion that WLA does not show the necessary number of staff members within IAU.

The insufficient number of staff may reflect on the effectiveness and efficiency of performing the planned audits and respecting the obligations from Agreements on the entrustment of internal audit work.

**Recommendation:**

We recommend:

- Updating the current WLA in accordance with the all Internal Audit Department tasks and responsibilities as well as signed Agreements on the entrustment of internal audit work.
- Harmonizing number of work posts in the Rulebook of Internal organization and systematization with the results of WLAs and fulfilling the vacancies.

Implementation deadline: December 2017

**Follow up of implementation of recommendation:**

**Status:** Not implemented

**Level of priority:** Intermediate

During follow up we identified that capacities of internal audit did not increase. According to new Rulebook of Internal organization and systematization of Ministry of Finance, 7 work posts are still envisaged in Internal Audit Department (IAD). IAD sent letters to Minister and Division for Legal Affairs in the Ministry of Finance explaining the necessity for the further employment. However there was no new employment in previous period and only 5 auditors are still employed. This finding remains open.

### **13. Reporting in respect to Monthly Progress**

ICF requirement:

1. *Control environment*

(c) Establishment of structures, reporting lines, and authorities and responsibilities

3. *Control activities*

(a) Selection and development of control activities

*Level of priority: Intermediate*

*Body/-ies concerned by the finding: HOS Office, IA/CFCU*

Some Financial management procedures have not been fully implemented in respect to the CBC Programme "Montenegro-Albania".

Processes of performing procedures related to IA/Head of IA and HOS Office/HOS responsibilities in respect to preparation and submission of progress reports (First Monthly Report, June/December Report and regularly Monthly Progress Reports) have been formalised and documented in the MoP Chapter Financial Management. During the audit performed and based on insight in submitted documentation, we determined that deadlines for abovementioned reports on contracts and payments have been breached by all IPA Bodies. It is evident that Monthly reports are approved by HOS before the OCHI checked and HOS approved Checklists.

Additionally, tables Status of Commitments and Disbursements are updated on a monthly basis for all CBC programmes. However, the Tables are not filled-in correctly. Column for Co-financing rate as per Financing Agreement is not in line with the column Budget as per Financing Agreement.

#### **Recommendation:**

We recommend respecting procedures in relation to issuing and submitting reports. Additionally, all annexes must be filled in properly and Tables Status of Commitments and Disbursements should be updated correctly.

Implementation deadline: December 2017

#### **Follow up of implementation of recommendation:**

**Status:** Not implemented

**Level of priority:** Intermediate

During follow up we determined that procedure has not been respected. The finding remains open.

### **14. Deficiency in the Work Load Analysis**

ICF requirement:

1. *Control environment*

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

*Level of priority: Intermediate*

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

During the audit we determined that the Work Load Analysis for 2017 and draft version for 2018 have been prepared and approved on 30<sup>th</sup> December 2016. The WLA is based on number of four (4) employees including HOS, Head of HOS Office, Publicity and Visibility Officer (Officer I) and Evaluation Officer (Officer II). The WLA is not based on actual number of employees since the position of Head of HOS Office is currently vacant.

Additionally, the WLA for 2017 and draft version for 2018 don't contain certain activities related to implementation of CBC Programme "Serbia-Montenegro" as e.g. issuance an Annual Management Guarantee, irregularity reporting and risk assessment of projects under Programme with Serbia etc.

**Recommendation:**

We recommend updating the Work Load Analysis (row TOTAL-number of staff) according to the current situation related to number of employees in the HOS office and taking into account all tasks and responsibilities of HOS Office.

Implementation deadline: December 2017

**Follow up of implementation of recommendation:**

**Status:** Implemented

Work Load Analysis for 2018 was prepared on 28<sup>th</sup> December 2017 in accordance with recommendation. The finding is closed.

**15. Insufficient knowledge of procedures in respect to the new Information System**

ICF requirement:

*1. Control environment*

(c) Establishment of structures, reporting lines, and authorities and responsibilities

*3. Control activities*

(a) Selection and development of control activities

**Level of priority:** *Intermediate*

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

Bearing in mind that new Information System related to financial reporting is functional from January 2017 and based on the interview it has been detected that HOS Office staff is not familiar with new Information system, procedures in this respect and their role in financial management and reporting system.

The HOS Office staff has not been involved in the process of development of new Information System and they were not present on none of the meetings/sessions organised by Ministry of Finance (who engaged company for system development) in this respect.

Role of HOS/HOS Office in the Information System must be recognised and clearly set up by the NAO in order to avoid all potential gaps and provide all relevant parties with the possibility to conduct their responsibilities and tasks in line with Manual of Procedure and defined flow of information.

**Recommendation:**

We recommend:

- Organisation trainings for HOS/HOS Office staff aiming to ensure fully involvement in the new Information System and theoretical familiarisation of staff with all rights and responsibilities.
- Meeting technical issues and requirements necessary for entering and updating data in reporting and information system.

Implementation deadline: December 2017

### **Follow up of implementation of recommendation:**

**Status:** Not implemented

**Level of priority:** Intermediate

During follow up we determined that recommendation has not been implemented. The finding remains open.

### **16. Implementation of the Annual on-the-spot checks Plan**

ICF requirement:

*1. Control environment*

(c) Establishment of structures, reporting lines, and authorities and responsibilities

*3. Control activities*

(a) Selection and development of control activities

**Level of priority:** *Intermediate*

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

During previous period, Annual on-the-spot checks Plans (for 2016 and 2017) have been timely prepared and signed. However, procedures in respect to preparation of these plans have not been fully implemented and respected. Namely, the Annual OTSC Plans have not been developed based on risk assessment analysis, as prescribed by Manual of Procedure, Chapter Management Verifications and planned checks for the abovementioned period have not been conducted yet.

Based on conducted interview, it can be concluded that HOS Office staff is not fully familiar with the management verifications procedures and their responsibilities in this respect.

### **Recommendation:**

We recommend:

- Annual OTSC Plan for the year 2017 should be reconsidered, having in mind the fact that breaching of set up deadline is evident.
- For the year 2018, the risk analysis should be prepared before development and approval of Annual OTSC plan, as prescribed by the Manual of Procedure, Management Verification chapter.
- Fully familiarising of HOS Office staff with the management verifications procedures defined in MOP and with their responsibilities.

Implementation deadline: December 2017

### **Follow up of implementation of recommendation:**

**Status:** Not implemented

**Level of priority:** Intermediate

Implementation of the recommendation will be monitored in the following period.

### **17. Deficiencies in the Annual Work Plan**

ICF requirement:

*1. Control environment*

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

*2. Risk Management*

(a) Objective settings

*Level of priority: Intermediate*

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

During the audit in the CBC Body we determined that the Annual Work Plan for the year 2017 doesn't contain activities related to management and monitoring of Joint Technical Secretariat as well as draft of work plan for year N+1 and Manual of Procedures for JTS. Also the Annual Work Plan doesn't include activities of preparation and issuance of Annual Management Declaration related to CBC Programmes "Montenegro-Albania" and "Montenegro-Kosovo" as well as Annual Management Guarantee for Programme "Serbia-Montenegro".

**Recommendation:**

We recommend including in AWP all activities and tasks for which the CBC Body is responsible.  
Implementation deadline: December 2017

**Follow up of implementation of recommendation:**

**Status:** Implemented

AWP for 2018 was prepared on 29<sup>th</sup> December 2017 including all activities and tasks for which the CBC Body is responsible. The finding is closed.

**18. Deficiencies in the Work Load Analysis**

ICF requirement:

*1. Control environment*

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

*Level of priority: Intermediate*

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

During the audit we determined that the Work Load Analysis for 2017 and draft for 2018 doesn't contain activities related to staff capacity building and trainings for staff which is included in AWP for 2017. Also there is no identified activities for issuing of Annual Management Guarantee for CBC Programme "Serbia-Montenegro".

Additionally, some other tasks which are responsibility of CBC Body in Programmes with Albania and Kosovo are not included in WLA such as activities related to management and monitoring of Joint Technical Secretariat as well as draft of work plan for year N+1 of JTS. Also, only one deliverable related to issuing of Annual Management Declaration for Programmes with Albania and Kosovo was indicated in WLA.

Activities in the WLA have not been disaggregated by individual CBC Programs so it is not clear which activities refer to which program or how much workload there is per each program.

**Recommendation:**

We recommend:

- Disaggregating activities in WLA by individual CBC Programs.
- Including in the WLA for 2017 and draft version for 2018 activities related to staff capacity building and trainings for staff which is included in AWP for 2017 and activities related to management and monitoring of Joint Technical Secretariat as well as preparation of work plan for year N+1 for JTS.
- Increasing expect number of deliverable on two (2) related to issuing of Annual Management Declaration as well as including activities for issuing of Annual Management Guarantee for CBC Programme "Serbia-Montenegro".

Implementation deadline: December 2017

**Follow up of implementation of recommendation:**

**Status:** Implemented

WLA for 2018 was prepared on 29<sup>th</sup> December 2017. By the insight into the WLA, it is determined that the recommendation is fulfilled and finding is closed.

**19. Deficiency in the Work Load Analysis**

ICF requirement:

*1. Control environment*

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

*Level of priority: Intermediate*

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

The Work Load Analysis (hereinafter WLA) have been prepared and signed for 2016 and 2017 and draft versions for 2018 and 2019 have been prepared, in accordance with the MoP procedures. WLA's result for 2017 is 37 positions.

The WLA for 2016 didn't recognise any activity for CBC programmes.

In respect to the WLA for 2017 certain failures are evident in respect to determination of CFCU involvement in the CBC programmes implementation. It has been identified that WLA doesn't contain majority of specific tasks and activities related to the process defined in the MoP for CBC programmes and Programme level control procedures for IPA II CBC Programme "Serbia – Montenegro".

The WLA doesn't cover any activity and responsibility in respect to CBC Programme "Serbia-Montenegro" (e.g. procedures in respect to issuing, reviewing and approving Programme level Control procedures; procedures in respect to issuing signing and submitting Annual Management Guarantee and Self-Assessment Questionnaire; communication with the partner OS/CA; activities in respect to the Management verifications of operations performed by the CA and Control Body (desk based checks and on-the-spot check); procedures for process of Irregularities; activities in respect to contract level reporting; Control Body responsibilities and activities prescribed in the Bilateral Arrangement and Programme level control procedures, etc.).

Additionally, it is evident that no activities stipulated in the MoP for CBC Programmes i.e. tasks and obligations in respect to Verification by NAO, Management verification by HOS, internal and external audits, NAO progress reports, communication with the NIPAC/HOS in respect to issuing Annual implementation report, Contract implementation and OTSC, attending in the High level/OS/Coordination meetings, info-days, communication with JMS, JTS (in respect to MoP, AWP, Supervisions etc.), procedures in respect to signed agreements (Bilateral Arrangements etc.), IT Policy activities etc.

**Recommendation:**

Bearing in mind the fact that WLA does not list all activities we recommend updating WLAs in accordance with activities and responsibilities defined by regulations and procedures.

Implementation deadline: December 2017

**Follow up of implementation of recommendation:**

**Status:** Not implemented

**Level of priority:** Intermediate

The WLA for 2018 is prepared after Final Report but not in accordance with the Audit Authority recommendations. The finding remains open.

## 20. Deficiency in the Annual Work Plan

ICF requirement:

*1. Control environment*

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

**Level of priority:** *Intermediate*

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

The Annual Work Plan for 2017 doesn't contain majority of specific tasks and activities related to the process defined in the MoP for CBC programmes and Programme level control procedures for IPA II CBC Programme "Serbia – Montenegro". Namely, the Annual Work Plan:

- does not cover any activity and responsibility in respect to the CBC Programme "Serbia-Montenegro" (e.g. procedures in respect to issuing, reviewing and approving Programme level Control procedures; procedures in respect to issuing signing and submitting Annual Management Guarantee and Self-Assessment Questionnaire; communication with the partner OS/CA, JTS and MNE OS; activities in respect to the Management verifications of operations performed by the CA and Control Body; procedures for process of Irregularities; activities in respect to contract level reporting; responsibilities and activities prescribed in the Bilateral Arrangement and Programme level control procedures, etc.).
- does not list all horizontal activities defined by Decrees on IPA I and IPA II, responsibilities prescribed in the signed Operational Agreement; tasks, responsibilities and overall objectives designated in the Annex A of the Framework Agreement for IPA perspective I and Article 76, Article 80 and Clause 4 of Framework Agreement for IPA perspective II, as well as, activities prescribed in the chapters of MoPs for IPA perspective I and IPA perspective II, etc.).

### **Recommendation:**

We recommend updating current Annual Work Plan with objectives and activities related to core processes prescribed in the regulations and MoPs.

Implementation deadline: December 2017

### **Follow up of implementation of recommendation:**

**Status:** Not implemented

**Level of priority:** Intermediate

The Annual Work Plan for 2018 is prepared after Final Report but not in accordance with the Audit Authority recommendations.

It is evident that CFCU staff doesn't developed document, which recognises all CFCU responsibilities and tasks.

## 21. Disrespecting of the Substitution Policy and Handover Procedures

ICF requirement:

*1. Control environment*

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

*3. Control activities*

(a) Selection and development of control activities

**Level of priority:** *Intermediate*

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

The Substitution Plans for 2016 and 2017 are signed, but it is evident that signed Substitution plans are not in line with the Annex provided in the MoP for CBC Programmes, Chapter Internal Organisation and HR.

When it comes to Substitution plans per case, provided as the Annex to the MoP for CBC Programmes, Chapter Human Resource Management, it has been identified that they have been issued during 2016 and 2017. Namely, Substitution plan per case is filled-in in case of Accountant and Financial Controller positions. However, respecting segregation of duties, it is evident that Substitution plan per case has been issued opposite to the approved Substitution Plan and segregation of duties. Namely, in terms of control activities, breaching of the four eyes principle has been identified in the CFCU – financial management processes. Based on insight in the CFCU annexes and documentation it has been identified that there is a not proper application of these rules when it comes to substitution of accountant position. Since one of the crucial rules has not been respected it is evident that this issue must be further monitored and treated with high importance by the CFCU management. Only one accountant is engaged in the CFCU.

Approved Substitution Plan defines that in case of absence, the accountant is being replaced by another accountant. Having in mind the fact that there is only one accountant engaged in the CFCU, Substitution Plan cannot be respected.

Regarding Handover procedure, respective CFCU staff signed Handover Checklists but it is evident that most of signed Handover Checklists have technical mistakes (column for employee handing over not properly ticked, there are not attached annexes/documentations which are handing/taking over, mistakes related to proper date and approval by relevant authority). Inadequate application of handover procedures provide incomplete and not clear information on handing/taking over documentation and does not provide adequate audit trail.

#### **Recommendation:**

We recommend:

- Strictly following substitution procedures and financial management principles on the way to engage additional Accountant on permanent basis or to identify one Financial Controller who will be excluded from respective transaction as financial manager and familiar with accounting procedures and IT tools, as well as in this case the MoP must be adjusted.
- Respecting the handover procedures in manner that each case of replacement and change of staff has to be followed with adequate checklists and documentation. Management must be confident that there is continuity in performance of all processes performed in the CFCU.

Implementation deadline: December 2017

#### **Follow up of implementation of recommendation:**

**Status:** Partly implemented

**Level of priority:** Minor

In respect to the handover procedures we concluded that recommendation has been fully implemented. Part of recommendation related to substitution policy has not been implemented yet. The finding remains open.

## **22. Inadequate premises and archiving space**

ICF requirement:

### *3. Control activities*

- (a) Selection and development of control activities
- (b) Security control activities

**Level of priority:** *Intermediate*

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

Existing CFCU premises are lacking of archiving space, specially having in mind the scope of work that has to be performed, size of documentation produced by CFCU staff, as well as special

requirements in respect to archiving conditions and time that has been prescribed for keeping of documentation. It has been identified that a lot of files are in the offices out of the lockers or shelves. Most of CFCU documentation is not archived electronically, what decrease the level of documentation protection. Non-existence of conditions for adequate storage of files may have consequences on proper threatening of confidential documentation, accidental destruction and generally leads to unconscionable treatment of documents.

Apart from above mentioned, it is evident that there is not adequate number of offices for current and planned number of CFCU employees. The offices, where the CFCU staff currently conducts tasks and activities, are not adequate for daily work bearing in mind the fact that five (5) offices are not enough for current number of staff.

**Recommendation:**

We recommend:

- Ensuring adequate premises and archiving space, in order to improve working condition, as soon as possible.
- Scanning and attaching all signed documentation in order to ensure back up in the Share folder and/or IPA Portal.

Implementation deadline: December 2017

**Follow up of implementation of recommendation:**

**Status:** Not implemented

**Level of priority:** Intermediate

CFCU has not changed the workspace yet. The finding remains open.

**23. Deficiency in the Work Load Analysis**

ICF requirement:

*1. Control environment*

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

*Level of priority: Intermediate*

*Body/-ies concerned by the finding: NIPAC Office*

During the audit in the NIPAC Office we determined deficiencies of the WLA for 2017.

Namely, WLA shows the need for nine (9) persons, but does not show the result of Work Load for Head of NIPAC Office and does not take into consideration tasks and responsibilities of NIPAC.

The WLA is divided according to tasks and responsibilities in respect to Programming and Monitoring Division, which leads to doubling of activities and does not include all horizontal tasks and responsibilities (risk management, publicity and visibility, irregularities, AMD etc.).

Due to above mentioned the WLA does not show the real situation and work load of the employees in the NIPAC Office.

**Recommendation:**

We recommend updating WLA in the manner to be included all activities and employees of the NIPAC office.

Implementation deadline: December 2017

**Follow up of implementation of recommendation:**

**Status:** Implemented

Work Load Analysis for 2018 was prepared on 27<sup>th</sup> December 2017 including all activities and employees of NIPAC Office. The finding is closed.

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

### **1. Deficiencies in the process of issuing Annual Management Guarantee**

ICF requirement:

1. *Control environment*

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

3. *Control activities*

(c) Policies and procedures related to control activities

**Level of priority:** *Major*

**Body/-ies concerned by the finding:** *HOS, CBC Body, Control Body*

According to Article 12 of the Bilateral Arrangements, the Head of Albanian Operating Structure, Head of CBC Body and Head of Control Body shall submit the Annual Management Guarantee (AMG) to the Head of Montenegrin OS, through the Head of Albanian OS.

During the audit we determined that the process of issuing AMG has not been performed in line with the instructions and arrangements defined in the Bilateral Arrangement and Draft Programme level control procedures.

Namely, the HOS submitted to the Montenegrin HOS, AMG for 2016, but has not coordinated the process of issuing AMG with the CBC and Control Body and AMGs have not been submitted by above mention bodies to the HOS. The AMG has been drafted by staff of CBC Body through an internal not formally regulated procedure.

The non-mandatory self-assessment questionnaire was not fulfilled at the level of CBC Body and Control Body even though this was stated as done in the issued AMG.

Additionally, it is evident that most of staff is not aware of importance of this process, no specific training session has been held and no segregation of duties is ensured.

No specific tasks and responsibilities in respect to the AMG process are included in the Job Descriptions.

### **Recommendation:**

We recommend respecting procedures prescribed in the Bilateral Arrangement and Draft Programme level control procedures.

Since AMG is an essential process to provide annual assurance to Montenegrin HOS, on proper implementation of the Bilateral Arrangement provision, it is necessary to raise awareness within CBC Body, Control Body and HOS about the importance of this process.

Additionally, main AMG tasks and activities must be included in the job descriptions and segregation of duties should be respected.

Even though to complete the self-assessment questionnaire is optional, the proper use of this tool would make it simple and more accurate the evaluation of management and control functions for the programme by HOS.

Implementation deadline: December 2017

### **Follow up of implementation of recommendation:**

**Status:** Partly implemented

**Level of priority:** Intermediate

During follow we determined that Annual Management Guarantee was prepared and signed on 29.12.2017. However HOS in issuing AMG has not respected programme level control procedures in

respect to fact that each body comprising the partner Operating Structure (i.e. the CBC Body and the Control Body), shall complete the AMG within the scope of their responsibilities.  
Job description should be approved by Department of Public Administration.  
The finding remains open.

## **2. Lack of Inter-institutional agreements (Implementing and/or Operational Agreement) and adequate Legal Basis**

ICF requirement:

### *1. Control environment*

(c) Establishment of structures, reporting lines, and authorities and responsibilities

**Level of priority:** *Intermediate*

**Body/-ies concerned by the finding:** *NIPAC, HOS, CBC Body, Control Body*

According to the Clause 4 (3) (c) of the Framework Agreement IPA II and Article 4 (3) of the Bilateral Arrangement, the bodies within the operating structure shall record arrangements between them formally in writing. According to Annex B (1) (c) the all structures shall have proper legal bases and full legal authority to carry out their assigned tasks and functions.

During the audit performed, based on insight in submitted documentation and interviews conducted with staff of CBC Body and Control Body, NIPAC and HOS, we determined that there is no relevant agreement in place which establish the lines of responsibility and reporting between the CBC Body, Control Body, HOS and NIPAC.

Council of Ministers Decision N° 541 "On definition of functions, responsibilities and relations between the management authorities and structures of the indirect European Union assistance, in the framework of IPA II Pre-Accession Assistance Instrument (2014-2020)" does not foreseen the CFCU to act as Control Body under CBC Programmes. Adequate legal act for designation of Control Body has not been adopted yet.

### **Recommendation:**

In order to establish a formal working relationship in terms of responsibilities and reporting within the programme framework, relevant agreement/s should be concluded between the CBC Body, Control Body, HOS and NIPAC.

We recommend that a legal act at national level shall be established to ensure that Control Body is defined in a way to enable achievement of assigned objectives and to have legal authority to carry out its assigned tasks and functions.

Implementation deadline: December 2017

### **Follow up of implementation of recommendation:**

**Status:** Not implemented

**Level of priority:** Intermediate

Inter-institutional agreements are under preparation. Legal act at national level which shall ensure that Control Body is defined in a way to enable achievement of assigned objectives and that have legal authority to carry out its assigned tasks and functions has not been adopted yet. The finding remains open.

## **3. Deficiencies in the performance of internal audit functions and staff capacity**

ICF requirement:

### *5. Monitoring of internal control framework*

(a) On-going and specific monitoring

**Level of priority:** *Intermediate*

**Body/-ies concerned by the finding:** *NIPAC, HOS, CBC Body*

After analysing collected data and information obtained from the Internal Audit Unit, we came to the conclusion that:

- Audit of CBC Body (Directory for Territorial Cooperation) has not been carried out so far;
- The internal audit function related to EU funds is being taken too lightly.
- Referring the Audit Strategic Plan 2016 – 2020, it was noted that the HOS and Directorate of Territorial Cooperation in the role of the CBC Body was not planned to be audited even though in the Internal Audit Manual is defined that "Head of Internal Audit Unit within institutions that are beneficiaries of EU funds must foresee annually financial and compliance audit in the strategic and annual audit plan".
- Employees of this unit have lack of awareness and understanding of the IPA requirements and of its implementation into procedures; the employee appointed as auditor of EU funds is not yet a Certified Auditor.

**Recommendation:**

In the Strategic plan and Annual work plan of Internal Audit Unit, the audit of the HOS and CBC Body should be considered.

The audit process should be supported by an adequate audit programme, working papers and checklist covering all areas of IPA requirements.

The staff of internal audit should be adequately trained for audit of EU funds and appointed as Certified Auditor.

Implementation deadline: December 2017

**Follow up of implementation of recommendation:**

**Status:** Implemented

Two auditors have been appointed to audit IPA funds at Ministry of European and External Affairs.

At annual audit engagement plan for 2018 one engagement audit for EU funds was predicted. The finding is closed.

**4. Inadequate Central IT Room**

ICF requirement:

3. *Control activities*

(b) Security control activities

**Level of priority:** *Intermediate*

**Body/-ies concerned by the finding:** *NIPAC, HOS, CBC Body*

The central IT equipment room in the Ministry of European Integration is not separated from other environments and is not suitable in order to complete the full security. Only a file server attached to the network of MEI is used, providing a location for shared disk access, storing and sharing electronic data.

**Recommendation:**

We recommend taking adequate measures for ensuring appropriate physical conditions and administration of the server room according to the technical standards defined in the Regulation of the National Agency for the Information Society (NAIS).

Implementation deadline: December 2017

## **Follow up of implementation of recommendation:**

**Status:** Implemented

During follow up we determined that recommendation was fulfilled.

### **5. Lack of ICT Infrastructure**

ICF requirement: *3. Control activities*

- (a) Selection and development of control activities
- (b) Security control activities

**Level of priority:** *Intermediate*

**Body/-ies concerned by the finding:** *HOS, CBC Body, Control Body*

During the audit we determined that in respect to the CBC Body and HOS there is no information security awareness, backup and restore policies and adequate asset management, as well as relevant practices education or training.

Additionally, Continuity Plans and IT Disaster Recovery Plans have not been developed at the level of the relevant ministries.

## **Recommendation:**

We recommend the following:

- Information Security policies in the CBC Body should be documented and approved.
- The CBC Body staff should receive appropriate IS awareness, education and trainings.
- Business Continuity Plans and IT Disaster Recovery Plans should be defined at the level of the relevant ministries and reviewed at least annually.

Implementation deadline: December 2017

## **Follow up of implementation of recommendation:**

**Status:** Not implemented

**Priority level:** Intermediate

CBC Body has not yet approved any IS policy and the staff has not yet received any IS education or training. Control Body offices are now established within the Ministry of Finance and Economy and will be backed up through the IT Directorate of the Ministry. The finding remains open.

### **6. Deficiencies in the Risk Management procedures**

ICF requirement:

1. *Control environment*

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

2. *Risk management*

- (b) Risk identification, assessment and management

**Level of priority:** *Intermediate*

**Body/-ies concerned by the finding:** *HOS, CBC Body, Control Body*

During the audit the following deficiencies being pointed out:

The CBC Body and Control Body have not identified and analysed all the risks that threaten the activities for achievements of the objectives of the organization and moreover, they have not identified any risk related to the CBC Programme "Montenegro-Albania".

Reviewing Training register, the CBC Body and Control Body staff didn't attend enough training on risk management.

In respect to the CBC Body, template for Risk Register does not provide deadlines and responsible person for the implementation and follow-up of the corrective actions, clear definition of mitigation measures, responsibilities assigned to the person/authority and timeline for implementation of measures.

Additionally, template for recording risk has not been developed.

The appointed Risk Manager is not staff of the CBC Body and is not familiar with IPA and CBC programmes.

### **Recommendation:**

We recommend:

- Improving the risk identification, preparing the action plan and more serious approach related to the risk management activities on the programme and project level.
- Improving risk management skills and attending the relevant trainings.
- Improving template for Risk Register and developing adequate template for recording risks.
- Appointing as Risk Manager for CBC programmes an employee of the Directorate of Territorial Cooperation who is familiar with CBC programmes and IPA.

Implementation deadline: December 2017

### **Follow up of implementation of recommendation:**

**Status:** Partly implemented

**Priority level:** Intermediate

In respect to CBC Body internal order was issued appointing Risk Manager, Irregularity officer and the officers of visibility and communication for territorial cooperation programs. In regard to this document the risk register was prepared. The risk register and action plan has predicted the risks, description of the risk, root causes, its impact, impact, likelihood risk level.

In respect to Control Body the risk register is prepared and will be updated every 6 months.

However better risk analysis is needed. The finding remains open.

## **7. Lack of Internal Control procedures**

ICF requirement:

### *2. Risk management*

(d) Identification and assessment of changes affecting the system of internal controls

### *3. Control activities*

(a) Selection and development of control activities

(c) Policies and procedures related to control activities

**Level of priority:** *Intermediate*

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

During the audit it was noted that in the CBC Body and HOS there is no developed procedures for requesting and reporting exceptions as well as procedures in respect to identifying possible weaknesses or deficiency in the management and control system.

Also there is not a written procedure for managing a change in the system that can affect the effectiveness of internal controls and have impact on the organization's achievement of objectives

Furthermore, the above mentioned procedures are not described in the Programme level control procedures which has not yet been approved by both countries.

**Recommendation:**

HOS and CBC Body should take measures to:

- Establish procedures for reporting the exceptions;
- Identify and manage weaknesses in order to ensure that variations to normal practices are always recorded and logged and reviewed at appropriate levels;
- Develop procedures for managing a changes in the system.
- Propose the involvement of these procedures in the Programme level control procedures document.

Implementation deadline: December 2017

**Follow up of implementation of recommendation:**

**Status:** Not implemented

**Level of priority:** Intermediate

Procedures have not been established yet. The finding remains open.

**8. Lack of Irregularities procedures**

ICF requirement:

*1. Control environment*

(c) Establishment of structures, reporting lines, and authorities and responsibilities

(d) Staff planning, recruitment, training and appraisal

*2. Risk Management*

(c) Fraud risk

**Level of priority:** *Intermediate*

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

During the audit in the HOS and CBC Body we identified that procedures in respect to handling of irregularities and fraud, prevention, assessment and reporting on irregularities, anti-fraud measures, whistle-blowers legal protection, as well as templates for Irregularity report and Irregularity register have not been developed.

Based on conducted interviews, it was concluded that CBC staff is not fully familiar with irregularity and fraud concept and procedures and their responsibilities in this respect.

The CBC Body staff have not attended any specific training in regard to irregularities and fraud risk.

**Recommendation:**

We recommend developing procedures and templates for prevention of irregularities and fraud, assessment and reporting on irregularities, anti-fraud measures and template for irregularity register.

The segregation of duties should be ensured between the units and staff within CBC Body.

Task and responsibilities regarding irregularities management should be allocated in job descriptions or in an administrative order of HOS.

In order to increase capacities on irregularities management all dedicated CBC staff should receive basic and advanced training.

Implementation deadline: December 2017

**Follow up of implementation of recommendation:**

**Status:** Partially implemented

**Level of priority:** Intermediate

It was issued an order from NIPAC for appointing responsible structures at Ministry of Europe and Foreign Affairs, for Assistance Coordination of EU in territorial cooperation. In this document the officer of irregularities was appointed. However there is need for more detailed described irregularities procedures. The finding remains open.

### **9. Lack of Work Load Analysis, Recruitment plan and Job descriptions**

ICF requirement:

1. *Control environment*

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

*Level of priority: Intermediate*

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

During the audit we determined that Work Load Analysis has been prepared only for 2014 and has not been updated for the following years taking into account all changes in responsibilities and tasks delegated to the CBC Body staff.

Under this condition, accurate recruitment plan cannot be prepared as well.

Additionally, it is evident that the Job Descriptions do not contain tasks and responsibilities regarding the staff work within the programme such as: preparation of AMG, Irregularities tasks for Irregularity Officer, Publicity Officer, etc.

#### **Recommendation:**

We recommend:

- Prepared WLAs for period 2017-2019 and Job descriptions in accordance with the tasks and responsibilities prescribed by the relevant regulations.
- Preparing Recruitment plan in accordance with the WLAs results.

Implementation deadline: December 2017

#### **Follow up of implementation of recommendation:**

**Status:** Not implemented

**Level of priority:** Intermediate

Capacity review table which should provide information on the Work Load was prepared, but it doesn't describe the real work load analysis for each employee. Job Descriptions and Recruitment Plan have not been prepared yet. The finding remains open.

### **10. Inadequate Human Resource policy (Training and Substitution Plan, Handover and Sensitive Posts)**

ICF requirement:

1. *Control environment*

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

*Level of priority: Intermediate*

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

During the audit performed and based on insight in submitted documentation, we determined lack of:

- Training needs Questionnaire and Training Needs Self-assessment, as well as Annual Training Plan which covers the main tasks and responsibilities needed for the implementation of the programme.

- Substitution plan in place in case of absences of staff in order to provide the continuity of operation.
- Adequate procedures for managing changes of staff (Handover procedure).
- Adequate Sensitive work posts analysis.

**Recommendation:**

We recommend developing:

- Training Needs Questionnaire and Training Needs Self-assessment, as well as Annual Training Plan in accordance with the results of TNS;
- Adequate Substitution plan for ensuring continuity of operations;
- Procedures for managing changes of staff (Handover procedure) including a comprehensive written report by the leaving staff member and handed over to the HOS, Head of the CBC Body and the person replacing him/her.
- Procedures in respect to Sensitive work posts analysis.
- In order to minimize the risk involved in the sensitive posts, they should be subject to increased supervision, such as internal controls and regular internal audits.

Implementation deadline: December 2017

**Follow up of implementation of recommendation:**

**Status:** Not implemented

**Level of priority:** Intermediate

The recommendation has not been implemented and finding remains open.

**11. Inadequate premises and equipment**

ICF requirement:

3. *Control activities*

a) Selection and development of control activities

**Level of priority:** *Intermediate*

**Body/-ies concerned by the finding:** *CBC Body, Control Body*

During the audit performed and the interviews conducted with HOS, CBC Body staff and Control Body staff, it has been identified the following:

Both sectors within the Directory of Transnational Cooperation (where the CBC Body is established) shared the same office. It is evident that the office is small and not adequate for daily work. The documents are not divided into separate files for each CBC and/or Transnational programmes and moreover the documents of both sectors are archived in the same folder.

Also, the premises of Control Body are inadequate in respect to provide a proper working environment. It was noted lack of space for archiving the documents. These offices do not ensure that assets and data are kept in a safe and secure place.

**Recommendation:**

We recommend:

- Taking the appropriate measures to provide adequate premises for CBC Body and Control Body staff.
- Ensuring adequate archive space for storing and maintaining documentation with focus on documentation with confidential content as well as adequate equipment.

Implementation deadline: December 2017

## **Follow up of implementation of recommendation:**

**Status:** Implemented

The CBC Body has moved to MEFA which has better premises with more spaces for the employees. On the other hand the Control body has new premises in Ministry of Finance and Economy and has better place to archive the documents. The finding is closed.

### **12. Understaffing, Deficiencies in the Job descriptions and lack of Individual Training register**

ICF requirement:

1. *Control environment*

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

*Level of priority: Intermediate*

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

On the basis of Internal Organization and Systematization of Ministry of Finance, Sector of Financial Management within CFCU is comprised of five (5) positions, three (3) of them performing the tasks of FLC for four CBC and transnational programmes. One (1) of these three (3) positions is still vacant.

Additionally, it is evident that the Job descriptions do not contain tasks and responsibilities regarding the staff work within the programme such as: preparation of Annual Management Guarantee, Irregularities tasks for Irregularity Officer, etc.

The Control Body staffs do not possess cumulative and individual training register which should be maintained by each employee.

#### **Recommendation:**

We recommend:

- Filling the vacant position as soon as possible in compliance with the Law on Civil Servants.
- Updating the Job descriptions for all employees in accordance with the MoP tasks and responsibilities including also tasks related to first level control of CBC Programme "Montenegro-Albania" 2014-2020
- Filling-in the individual and cumulative training registers.

Implementation deadline: December 2017

## **Follow up of implementation of recommendation:**

**Status:** Partially implemented

The part of recommendation related to filling the vacant positions is implemented. However Job Descriptions have not been updated and individual and cumulative training registers have not been filled in. The finding remains open.

### **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 2017 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'.

## **5. AUDITS OF SAMPLES OF TRANSACTIONS**

Not applicable. Bearing in mind that no expenditure were declared during the year 2017, the Audit Authority has not been in position to perform audit of transactions/operations regarding the financial year 2017.

## **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 account**

The audit body that has carried out audit of the annual financial reports/annual accounts is Audit Authority of Montenegro. According to the Annex A of the Framework Agreement Audit Authority of Montenegro issues an annual opinion on the annual financial reports or statements and the underlying annual accounts for the preceding financial year, covering their completeness, accuracy and veracity.

### **6.2 Description of audit approach used to verify the elements of the annual financial reports or statements/annual accounts**

The audit of accounts in respect of accounting year 2017 has been carried out in the second half of February 2018. During the audit we have verified the completeness, accuracy and veracity of the amounts declared in the accounts.

For that purpose we shall take into account also the work done on system audits carried out on the NF (verification of the reliability of the accounting system of the National Fund (NF)).

During 2017 there were no signed contracts and no expenditure were declared and paid. Only Request for pre-financing in amount of 357.000,00 € for the year 2014 and 510.000,00 € for the year 2015 was sent by National Fund and approved and paid by European Commission.

### **6.3 Indication of the conclusions drawn from the results of the audit**

Bearing in mind that no expenditure were declared to the EC in 2017 year, our audit was limited, i.e. focused only on the EU pre-financing amount on MF – NF CBC Account.

On the basis of work performed we can conclude that annual financial reports were prepared in accordance with the templates set out in the Financing Agreements and that the amounts declared in the accounts are true, complete, accurate and credible.

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

Not applicable.

## **8. OTHER INFORMATION**

Not applicable.

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

The Audit Authority performed system audit in 2017. The 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 2017.

Regarding abovementioned, the Audit Authority does not have all necessary elements to express overall level of assurance on the proper functioning of the management and control system.

## 10. TABLE FOR DECLARED EXPENDITURE AND SAMPLE AUDITS

Not applicable.

Fund	Reference (CCI)	Programme	A Expenditure declared to the Commission in reference to the year	B Expenditure in reference to the financial year audited for the random sample		C Total number of units in the population	D Number of sampling units for the random sample	E Amount and percentage (error rate) of irregular expenditure in random sample		F Total projected error rate	G Corrections implemented as a result of the total error rate	H=F-G Residual total error rate	GI Other expenditure audited	JH Amount of irregular expenditure in other expenditure sample	
				Amount	%			Amount	%						%
	C(2014) 9352	IPA II 2014-2020 Cross-Border Cooperation Programme Montenegro-Albania	/	/	/	/	/	/	/	/	/	/	/	/	/