



**MONTENEGRO
AUDIT AUTHORITY**

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ANNUAL AUDIT ACTIVITY REPORT

OF THE AUDIT AUTHORITY FOR

IPA II 2014-2020 CROSS-BORDER COOPERATION PROGRAMME

“MONTENEGRO – KOSOVO”

FOR THE PERIOD

1st JANUARY 2021 – 31st DECEMBER 2021

Podgorica, March 2022

Contents

1. INTRODUCTION.....	7
1.1 Details of the responsible Audit Authority and other bodies that have been involved in preparing the Report	7
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)	7
1.3 Identification of the sector/policy area(s) covered by the report and of its/their operating structure and management structure.....	8
1.4 Description of the steps taken to prepare the report and to draw the audit opinion.....	9
2. SUBSTANTIAL CHANGES IN MANAGEMENT AND CONTROL SYSTEMS.....	9
2.1 Details of any substantial changes in the management and control systems, and confirmation of its compliance with Article 7 of Commission Implementing Regulation (EU) No 447/2014 based on the audit work carried out by the audit authority under Article 12 of Commission Implementing Regulation (EU) No 447/2014.....	9
2.1.1 Changes in the MCS in Montenegro since last Annual Audit Activity Report	10
2.1.2 Changes in the MCS in Republic of Kosovo since last Annual Audit Activity Report.....	10
2.2 The dates from which these changes apply, the dates of notification of the changes to the audit authority, as well as the impact of these changes on the audit work are to be indicated	10
3. CHANGES TO THE AUDIT STRATEGY	10
4. SYSTEMS AUDITS.....	11
4.1. Details of the bodies that have carried out system audit	11
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	12
4.3 Description of the basis for selection of the audits in the context of the audit strategy	13
4.4 Description of the principal findings and conclusions drawn from the audit work for the management and control system and their functioning	14
4.4.1 Principal Findings and recommendations related to MCSS	15
4.5 Description of specific deficiencies related to the management of financial instruments	20
4.6 Level of assurance obtained following the system audit (low/average/high) and jurisdiction .	20
5. AUDITS OF SAMPLES OF TRANSACTIONS.....	20
5.1 Authorities/bodies that carried out the sample audits, including the audit authority	20
5.2 Description of the sampling methodology applied and information whether the methodology is in accordance with the audit strategy.....	20
5.3 Indication of the parameters used for statistical sampling, materiality level, the confidence level, the expected error rate applied, calculation of the required sample and the interval,	

sampling unit, number of sampling units in the population, number of sampling units actually audited.....	20
5.4 Reconciliation of the expenditure declared to the Commission in the financial year to the sampled expenditure. Reconciling items include negative items where financial corrections have been made in the financial year, as well as differences between amounts declared in euro and amounts in national currency, where relevant	20
5.5 Where there are negative items, confirmation that they have been treated as a separate population.....	20
5.6 In case of the use of non-statistical sampling, indicate the reasons for using the method in line with Article 12 (2) of Commission Implementing Regulation (EU) No 447/2014, the percentage of actions/operations / expenditure covered through audits, the steps taken to ensure randomness of the sample (and its representativeness) and to ensure a sufficient size of the sample enabling the audit authority to draw up a valid audit opinion. A projected error rate is calculated also in case of non-statistical sampling.....	21
5.7 Summary table (see below), broken down where applicable by programme indicating the eligible expenditure declared to the Commission during the year, the amount of expenditure audited, and the percentage of expenditure audited in relation to total eligible expenditure declared to the Commission for the last year, as well as the total number of sampling units in the population and the number of sampling units actually audited for the random sample. Information relating to the random statistical sample is distinguished from that related to other samples if applicable (e.g. risk-based complementary samples).....	21
5.8 Analysis of the principal results of the audits (sample items selected and audited, together with the respective amount and types of error by operation) as well as the nature of errors found, root causes and corrective measures proposed, including mitigating these errors in the future. .	21
5.9 Details of the most likely error rate (total error rate) and, in case of statistical sampling method, the upper limit of the error rate as a result of the audits of operations, and the amount of irregular expenditure detected and the error rate resulting from the random sample audited....	21
5.10 Compare the total error rate with the set materiality level, in order to ascertain if the population is materially misstated or not. If so, analyse the significance of the total error rate for the audit opinion and report the recommended corrective measures.....	21
5.11 Corrections relating to the current year implemented by the operating structure/management structure before submitting the final declaration of expenditure and financial statements to the Commission, and resulting from the audits of operations, including flat rate or extrapolated corrections.....	21
5.12 Residual total error rate following the implementation of the above-mentioned corrections and significance for the audit opinion.....	21
5.13 Information on the results of the audit of the complementary (e.g. risk based) sample, if any.	22
5.14 Information on the follow-up of irregularities, including revision of previously reported residual error rates, as a result of all subsequent corrective actions.	22

5.15 Details of whether any problems identified were considered to be systemic in nature, and the measures taken, including a quantification of the irregular expenditure and any related financial corrections.	22
5.16 Description (where applicable) of specific deficiencies or irregularities related with financial instruments. Where applicable, indication of the sample error rate concerning the audited financial instruments.	22
5.17 Analysis of the principal results of the audits of negative items, including conclusions as to whether the negative items audited correspond to the decisions of the country or of the Commission, and reconcile with the amounts included in the accounts on amounts withdrawn and recovered during the year and amounts to be recovered at the end of the year.....	22
5.18 Conclusions drawn from the results of the audits with regard to the effectiveness of the management and control system.	22
6. AUDITS OF THE ANNUAL FINANCIAL REPORTS OR STATEMENTS/ANNUAL ACCOUNTS	22
6.1 Indication of the authorities/bodies that have carried out audits of the annual financial reports or statements/annual accounts.	22
6.2 Description of audit approach used to verify the elements of the annual financial reports or statements/annual accounts defined in Article 12(2) and Article 23(1)(b) of Commission Implementing Regulation (EU) No 447/2014.....	22
6.3 Indication of the conclusions drawn from the results of the audits in regard to the completeness, accuracy and veracity of the declaration of expenditure and financial statements, including an indication on the financial corrections made and reflected in the declaration of expenditure and financial statements as a follow-up to the results of the audit on transactions/operations.....	26
6.4 Indication of whether any problems identified were considered to be systemic in nature, and the measures taken.....	26
7. FOLLOW-UP OF PREVIOUS YEARS' AUDIT ACTIVITY	27
7.1 Information on the follow-up of outstanding audit recommendations and on the follow-up of results of systems audits and audits of transactions/operations (including the audits done in regard to the complementary sample) from earlier years.....	27
7.2 Subsequent events affecting the previous opinion and the previous annual audit activity report under Article 12(3) of Commission Implementing Regulation (EU) No 447/2014.	29
8. OTHER INFORMATION	30
8.1 Information on reported fraud and suspicions of fraud, together with the measures taken. ...	30
8.2 Subsequent events occurred after the submission of the declaration of expenditure and financial statements and before the transmission of the annual audit activity report under Art. 12 (3) of Commission Implementing Regulation (EU) No 447/2014 to the Commission and considered when establishing the level of assurance and opinion by the audit authority.	30
8.3 Any other information that the audit authority considers relevant and important to communicate to the Commission, in particular to justify the audit opinion, is reported in this section.....	30

9. OVERALL LEVEL OF ASSURANCE	30
9.1 Explanation on how the overall level of assurance on the proper functioning of the management and control system is obtained from the combination of the results of the system audits and audits of operations.....	30
9.2 Where the total error rate relating to the expenditure declared in the payment claims in a year is above the materiality level, analyse its significance and assess whether this indicates a serious deficiency (ies) in the functioning of the relevant management and control system during the year. Where relevant, take also account of the results of other national or Union audit work carried out in relation to the year.....	30
9.3 Assessment of the corrective action necessary both from a system and financial perspective.....	31
9.4 Assessment of any relevant subsequent adjustments made and corrective actions taken such as financial corrections included in the declaration of expenditure and financial statements and assess the residual error rate and the need for any additional corrective measures necessary both from a system and financial perspective.....	31
10. TABLE FOR DECLARED EXPENDITURE AND SAMPLE AUDITS	32

List of abbreviation

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

1. INTRODUCTION

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

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

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

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

The Audit Authority is responsible for verifying:

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

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

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

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

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

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

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

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

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

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

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

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

NAO submitted Annual Financial Report for 2021 on 15th February 2022.

The amount of cost recognised reported by NAO in AFR for 2014 allocation is 746.902,36€ (634.752,36€ EU part, 112.150,00€ other contribution).

Regarding 2015 allocation the amount of cost recognised reported in AFR is 884.732,74€ (748.798,33€ EU part, 135.934,41€ other sources).

As for allocations for the years 2016-2020 amount of cost recognised reported in AFR is 0,00 €. For allocations 2016 and 2017 contracts were signed in the second half of 2020 and there were no costs recognised by CFCU, while for allocations 2018 - 2020 call for proposals was announced in May 2021 and contracts have not been signed yet.

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

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

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

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

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

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

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

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

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

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

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

2. SUBSTANTIAL CHANGES IN MANAGEMENT AND CONTROL SYSTEMS

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

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

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

– Deputy Chief Negotiator – National IPA Coordinator

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

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

– National Authorising Officer

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

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

– Head of Operating Structure

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

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

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

During 2021 there have been no changes in the Kosovo Operating structure.

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

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

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

3. CHANGES TO THE AUDIT STRATEGY

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

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

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

4. SYSTEMS AUDITS

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

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

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

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

Audit period	1. Programme (CCI and title)	2. Audit Body	3. Audited Body(ies)	4. Date of the audit	5. Scope of the audit	6. Principal findings and conclusions	7. Problems of systemic character and measures taken	8. Estimated financial impact (if applicable)	9. State of follow-up (closed /or not)
01.01.2021.-31.12.2021.	IPA II 2014-2020 Cross-Border Cooperation Programme Montenegro-Kosovo (C (2014) 9307) <i>CRIS N°:</i> 2014/037-592 2015/038-161 2016/038-182 2017/038-183 2018/041-472 2019/041-474 2020/041-475	Audit Authority of Montenegro + Goa members	1.National Fund 2.NAO SO 3.CA/CFCU 4.Control Body + Follow up in all bodies within MCSS of the IPA II 2014-2020 CBC Programme Montenegro-Kosovo	June-December 2021	-2(c) Fraud risk – NAO SO, CA/CFCU, CB; -3(a) Selection and development of control activities - NFD, CA/CFCU, CB; -5(a) On-going and specific monitoring – NAO SO; -5(b) Assessment, recording and communication of internal control deficiencies – NAO SO; - Follow up of open findings from previous audits - all bodies within MCSS	<u>Findings related to Montenegro</u> 1. Failure to meet prescribed deadlines 2.Discrepancy between approved amount in the Global Endorsement table and approved amount in the Grant Contracts Award Notice table 3. Discrepancy between data in the Financial Report Registers and CPOS-FROS-s 4. Technical errors observed in process of control and supervision of grant beneficiaries' financial reports and payment requests No findings identified related to Kosovo OS Bodies <u>Audit conclusion:</u> Category 2 - Works, but some improvements are needed. For more details please refer to the point 4.4 of this report	-	-	Findings are OPEN

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

National Fund (NF):

- 3(a) Selection and development of control activities

NAO Support Office (NAO SO):

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

Contracting Authority (CA):

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

Control Body (KOS CB)

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

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

The system audit encompassed the period from 1st October 2020 to 30th September 2021. The audit was performed in the period from 17th June 2021 until 20th December 2021. The Final Audit Report was issued and submitted to National Authorising Officer, National IPA Coordinator of Montenegro, National IPA Coordinator of Kosovo, Head of Operating Structure in Montenegro and Head of Operating Structure in Kosovo on 24th January 2022.

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

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

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

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

During the preparation of Audit Strategy, risks were identified and taken into account at the programme/structures and authorities' level while during system audit engagement planning risk assessment was performed at the level of each key requirements. Specific risk factors have been assessed for each body and ICF area. Each risk factor has been assessed as Low, Medium or High,

considering both the significance and likelihood of the risk, and has been evaluated in 5-points scale: the highest risk gets highest points and vice versa. In order to distinguish between the factors with varying importance, the weight have been given to the specific risk factors. After assessment, all bodies are ranked according to the total score.

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

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

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

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

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

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

No findings were identified in respect to Kosovo bodies.

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

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

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

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

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

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

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

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

4.4.1 Principal Findings and recommendations related to MCSS

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

ICF requirement:

3. *Control activities*

(a) Selection and development of control activities

Level of priority: Major

Body/-ies concerned by the finding: CFCU

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

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

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

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

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

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

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

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

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

Reviewing the procedures related to the approval costs and payment executions, the Audit Authority auditors concluded that:

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

1. For CFCU/MNE/068

Interim Financial Report was archived on 4th September 2020, deadline for entry into the accounting system Written Approval Letter was 4th October 2020.

Bearing in mind that:

1. Control Body suspended Contract from 4th September 2020 until 21st September 2020, new deadline for entry into accounting system Written Approval Letter was 21st October 2020.
2. CFCU sent Request for additional information on 5th October 2020 (deadline for submission of documents was 12th October 2020) and 21st October 2020 (deadline for submission 26th October 2020), **new deadline for entry into accounting system was 26th October 2020.**

Written Approval Letter was sent to the Grant Beneficiary on 2nd November 2020 and entered into accounting system on 3rd November 2020.

2. For CFCU/MNE/069

Interim Financial Report was archived on 26th May 2021, deadline for entry into the accounting system Written Approval Letter was 25th June 2021.

Bearing in mind that:

1. CFCU sent Request for additional information and suspended Contract on 11th June 2021 (deadline for submission of documents was 2nd July 2021), **new deadline for entry into accounting system was 16th July 2021.**

Written Approval Letter was sent to the Grant Beneficiary on 5th August 2021 and entered into accounting system on 5th August 2021.

3. For CFCU/MNE/071

Final Financial Report was archived on 4th March 2021, deadline for entry into the accounting system Written Approval Letter was 1st May 2021.

Bearing in mind that:

1. CFCU sent Request for additional information and suspended Contract on 19th April 2021 (deadline for submission of documents was 30th April 2021), **new deadline for entry into accounting system was 12th May 2021.**
2. CFCU sent Request for additional information and suspended Contract on 18th May 2021 (deadline for submission of documents was 31st May 2021), which is after the deadline for entry into accounting system, **new deadline cannot be taken into consideration.**

Written Approval Letter was sent to the Grant Beneficiary on 5th July 2021 and entered into accounting system on 5th July 2021.

4. For CFCU/MNE/072

Final Financial Report was archived on 7th June 2021, **deadline for entry into the accounting system Written Approval Letter was 4th August 2021.**

Bearing in mind that:

1. CFCU sent Request for additional information and suspended Contract on 9th August 2021 (deadline for submission of documents was 16th August 2021), which is after the deadline for entry into accounting system, **new deadline cannot be taken into consideration.**

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

5. For CFCU/MNE/070

Final Financial Report was archived on 14th January 2021, deadline for entry into the accounting system Written Approval Letter was 13th March 2021.

Bearing in mind that:

1. CFCU sent Request for additional information and suspended Contract on 9th February 2021 (deadline for submission of documents was 19th February 2021), new deadline for entry into accounting system was 24th March 2021.
2. CFCU sent Request for additional information and suspended Contract on 5th March 2021 (deadline for submission of documents was 12th March 2021), **new deadline for entry into accounting system was 1st April 2021.**

Written Approval Letter was sent to the Grant Beneficiary on 15th June 2021 and entered into accounting system on 15th June 2021.

Additionally, it is evident that deadline defined in the Special Conditions of the Contract, Article 4 – Reporting and Payment arrangements Point 4.2 “*Progress Narrative and Financial Reports, together with the detailed breakdown of expenditure and supporting documents, in accordance with the Article 15.7 of Annex II, covering each 6 (six) months of the period of implementation shall be submitted within 1 (one) month after the period of implementation concerned*” for submission Interim Financial Report was not respected by Contractor CFCU/MNE/069. Namely, Report was sent on 17th May 2021 for Fourth Financial Report Period (2nd May 2020-2nd August 2020).

- *Auditors reviewed documentation related to the approval of final payment for three (3) contracts (Checklist for Final payment, Request for Funds Checklists and SAP printout) and concluded that Payment executions for three (3) contracts had not been sent and made in accordance with the defined deadlines as follows:*

1. For CFCU/MNE/071

Final Financial Report was archived on 4th March 2021.

1. Contract was suspended for 12 days (First Request for additional information was submitted on 19th April 2021 and deadline for submission of the documents was 30th April 2021).
2. Contract was suspended for 14 days (Second Request for additional information was submitted on 18th May 2021 and deadline for submission of the documents was 31st May 2021).

Bearing in mind that:

* Request for final Payment was submitted on 4th March 2021,

* 26 days of the suspension

Deadline for executed the final payment and entered into the accounting system was 28th June 2021. However, Payment order was made on 26th August 2021.

2. For CFCU/MNE/072

Final Financial Report was archived on 7th June 2021.

1. Contract was suspended for 8 days (Request for additional information was submitted on 9th August 2021 and deadline for submission of the documents was 16th August 2021).

Bearing in mind that:

* Request for final Payment was submitted on 7th June 2021,

* 8 days of the suspension

Deadline for executed the final payment and entered into the accounting system was 19th September 2021. However, payment execution has not been conducted.

3. For CFCU/MNE/070

Final Financial Report was archived on 14th January 2021.

1. Contract was suspended for 11 days (First Request for additional information was submitted on 9th February 2021 and deadline for submission of the documents was 19th February 2021).
2. Contract was suspended for 8 day (Second Request for additional information was submitted on 5th March 2021 and deadline for submission of the documents was 12th March 2021).

Bearing in mind that:

* Request for final Payment was submitted on 14th January 2021,

* 19 days of the suspension

Deadline for executed on the payment and entered into the accounting system was 3rd May 2021. However, Payment order was made on 6th August 2021.

During contradictory procedures CFCU submitted evidence of issuance of Written approval for contract CFCU/MNE/072 on 22nd November 2021 and payment execution on 28th December 2021.

Recommendation:

The Audit Authority auditors recommend to the CFCU to:

1. Perform verification and send Written Approval Letters to the grant beneficiaries in accordance with the prescribed deadline in the Manual of Procedures.
2. Coordinate tasks and activities with the Control Body to respect the deadlines prescribed in the Programme level control procedures.
3. Make Payment executions in accordance with the deadline prescribed in the PRAG rules, General Conditions of the Contracts and Manual of Procedures.
4. Establish better coordination with the Control Body in respect to the activities for performing verification, in a way that after checking the documents by relevant CFCU and Control Body staff (FLC1 and FLC2), CFCU sends one Request for additional information/clarification in accordance with the deadline prescribed in point 15.5 of Grant Contract Special Conditions and deadline prescribed in the Manual of Procedures, Chapter Financial Management, point 4.5 Modalities concerning cost recognised – Table 3: Specific operational procedures: Approval of financial reports/approval costs.
5. Give deadline to beneficiary for submitting the additional documentation and clarifications which is realistic, bearing in mind that the beneficiary already has one month from the period of the implementation for submitting the interim reports and three months after the implementation period for final reports. All documents submitted by beneficiaries after the deadline should be considered unacceptable.

➤ **Finding N° 2: Technical errors observed in process of control and supervision of grant beneficiaries financial reports and payment requests**

ICF requirement:

3. Control activities

(a) Selection and development of control activities

Level of priority: *Intermediate*

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

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

After the payment request goes through all the necessary checks and after it is approved by the Head of CFCU, it is sent to the HOS office, where it should be reviewed and approved by the HOS.

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

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

1. FC1 and FC2 electronically filled out all Checklists.
2. The Head of CFCU didn't approve and sign Checklist for Request for Funds because in accordance with the MoP this Checklist is not foreseen to be approved by the Head of CFCU.
3. The Request for Funds for Contract CFCU/MNE/071 (IPA Code K4.1.1.01.01.C01.r3) was signed and approved by former Head of HOS on 13th August 2021.

It may have an impact on the quality of the performed control and supervision and increase the risk of approving ineligible costs and making the payment for payment requests that do not meet all contractual requirements.

Recommendation:

We recommend that:

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

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

Not applicable.

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

Not applicable.

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

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

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

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

5. AUDITS OF SAMPLES OF TRANSACTIONS

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

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

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

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

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

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

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

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

Programme Reference	Financing Agreement contract number	Total Amount Disbursed		Total Costs Recognised		Total Open Pre-financing		Bank Balances (EU contribution)	Forecast disbursements
		EU contribution	Other sources	EU contribution	Other sources	EU contribution	Other sources		
CBC MNE-KOS 2014	2014/037-592	795.989,84	0,00	634.752,36	112.150,00	161.237,48	0,00	37.173,88	36.099,44
CBC MNE-KOS 2015	2015/038-161	1.056.444,36	0,00	748.798,33	135.934,41	307.646,03	0,00	130.385,30	98.683,18
CBC MNE-KOS 2016	2016/038-182	802.094,65	0,00	0,00	0,00	802.094,65	0,00	303.829,29	365.382,56
CBC MNE-KOS 2017	2017/038-183	401.298,70	0,00	0,00	0,00	401.298,70	0,00	336.546,43	415.379,53
CBC MNE-KOS 2018	2018/041-472	0,00	0,00	0,00	0,00	0,00	0,00	0,00	960.000,00
CBC MNE-KOS 2019	2019/041-474	0,00	0,00	0,00	0,00	0,00	0,00	0,00	960.000,00
CBC MNE-KOS 2020	2020/041-475	0,00	0,00	0,00	0,00	0,00	0,00	0,00	864.000,00

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

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

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

- a) the total amounts contracted and addendums signed, invoices received, payments made and recoveries requested, amounts disbursed, total costs recognised, amounts of open pre-financing and the relevant percentages based on appropriate total amounts submitted to the Commission in accordance with the Annex IV of the Financing Agreements correspond to the amounts entered in the accounting systems of the National Fund Division (NF) and are based on verifications and relevant supporting documents (requests, checklists, approvals) of the Implementing Agency/CFCU, HOS and National Fund Division (NF);
- b) the total amounts submitted in the Annual Financial Reports correspond to the amounts in the electronic database for each contract in relation to the contract reference, initial contract amount, amended contract amount, contract implementation start and end date, amount paid and amount of recoveries under the contract, amount related to total pre-financing paid and pre-financing cleared, total costs accepted, invoice date, invoice initial amount and invoice eligible amount accepted;

- c) the bank account statement balances and the bank confirmation letter correspond to the year-end balances in the accounting systems of the National Fund Division (NF) and Implementing Agency/CFCU.

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

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

See reconciliation table below:

Programme/Grant beneficiary				NF Accounting System														IAGFCU										
Name of allocation	Current contract value/ EU part	Current contract value/ Other sources	Source	Payment Request by Grant beneficiary	RfF from IA	Record in NF Acc system	Bridge Financing	Record in NF Acc system	RfFs to EC	Record in NF Acc system	Bank statement MF-NF-IPA Acc	Record in NF Acc system	Bank statement State Treasury Main Acc	Record in NF Acc system	Financial Forecast	Cost recognised EU part	Cost incurred and accepted but not yet paid EU Part	Calculation by AA	Payment Order	Bank statement	Record in CFCU Acc system	Pre-financing paid	Pre-financing cleared	Cost accepted EU part	Open pre-financing	Calculation by AA	Recovery	
CBC MNE-KSV 2014	833.163,72	147.177,77	Pre-financing Further pre-financing	795.989,84	795.989,84	795.989,84	13.209,61	13.209,61	795.989,84	795.989,84	795.989,84	795.989,84	795.989,84	795.989,84	36.099,44	634.752,36	0,00	634.752,37	795.989,84	795.989,84	795.989,84	795.989,84	634.752,36	0,00	161.237,48	161.237,47	0,00	
CBC MNE-KSV 2015	1.186.829,66	212.209,06	Pre-financing Further pre-financing	1.056.444,36	1.056.444,36	1.056.444,36	62.343,56	62.343,56	1.056.444,36	1.056.444,36	1.056.444,36	1.056.444,36	1.056.444,36	1.056.444,36	98.683,18	748.798,33	0,00	748.798,34	1.056.444,36	1.056.444,36	1.056.444,36	1.056.444,36	748.798,33	0,00	307.646,03	307.646,02	0,00	
CBC MNE-KSV 2016	1.197.476,21	188.195,32	Pre-financing	802.094,65	802.094,65	802.094,65	0,00	0,00	802.094,65	802.094,65	802.094,65	802.094,65	802.094,65	802.094,65	365.382,56	0,00	0,00	0,00	802.094,65	802.094,65	802.094,65	802.094,65	0,00	0,00	802.094,65	802.094,65	0,00	
CBC MNE-KSV 2017	816.678,23	167.464,47	Pre-financing	401.298,70	401.298,70	401.298,70	0,00	0,00	401.298,70	401.298,70	401.298,70	401.298,70	401.298,70	401.298,70	415.379,53	0,00	0,00	0,00	401.298,70	401.298,70	401.298,70	401.298,70	0,00	0,00	401.298,70	401.298,70	0,00	
CBC MNE-KSV 2018	0,00	0,00	N/A	N/A	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	960.000,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
CBC MNE-KSV 2019	0,00	0,00	N/A	N/A	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	960.000,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
CBC MNE-KSV 2020	0,00	0,00	N/A	N/A	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	864.000,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00

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

During the audit we also performed follow up of implementation of recommendation related to open findings given in previous audit of accounts performed in 2020. The result of performed follow up is that out of 2 issued findings, both are closed. CFCU rejected ineligible costs determined during the audit of operation, issued updated Written Approval Letter with modification of the total cost recognised and entered relevant documents into the SAP. Cost recognised in the Annual Financial Report for 2021 for CBC Programme Montenegro-Kosovo 2015 has been corrected for the amount of determined ineligible expenditure. CFCU also reconciled data given in the IA Monthly Progress Report on Contracts and Payments and planned cost recognized, SAP print-out and Annex 9 - Contract Payments Overview Sheet with data presented in issued Written Approval Letter. Adequate documents have been taken into account during the process of verification and approval of IA Progress report on contracts and payments by NF as well as preparation of Year-end cut-off report and Annual Financial Report. Recommendations given during the previous audit of accounts have been hereby implemented.

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

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

The Audit Authority also considered the results from the system audit regarding the design and operating effectiveness of the management and control (MCSS) in the process of preparing and submitting of the Annual Financial Reports and results of follow up of findings issued in the previous audits. Bearing in mind that no expenditures were declared during the year 2021, the Audit Authority has not been in position to perform audit of transactions/operations regarding the financial year 2021.

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

Based on the audit work performed we have obtained reasonable assurance on the completeness, accuracy and veracity of the amounts declared in the accounts submitted to the Commission for the accounting year 2021.

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

No problems considered to be systemic in nature were identified.

7. FOLLOW-UP OF PREVIOUS YEARS' AUDIT ACTIVITY

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

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

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

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

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

Nº	Findings identified during the System audit 2017	Body	Status in January 2022	New deadline
1.	Understaffing	IA/CFCU	<i>Implemented</i> Based on the submitted Staff overview table for CBC programmes the progress in respect to the engagement of staff in the CFCU is evident. The WLA minimum requirements for the number of needed Accountant positions has been fulfilled. Namely, based on the staff overview and the Employment Decision, it is evident that the position of Accountant is fulfilled in accordance with the AA auditors' recommendations.	
2.	Deficiency in the MoP Written Procedures	NAOSO	<i>Not implemented</i> The difference between the chapters is evident. Changes in certain chapters do not imply compliance with other chapters on which those changes are reflected. (Part I and Part II). Level of priority: <i>Minor</i>	May, 2022
3.	Inadequate backup of data and insufficient number of trainings related to IT	NF NAOSO HOS Office CBC Body IA/CFCU	<i>Partly implemented</i> CFCU and NFD ensured back up of data and staff attended trainings in previous period. The need for additional trainings related to IT security policy is recognised and included in the Action Plan ISO27002 and Training Plan for 2022.	May, 2022

			<p>Implementation of activities envisaged in the IT Action plan ISO 27002 will be monitored in following period.</p> <p>HOS Office and CBC Body staff still use external hard disk which is not secured enough and is not in accordance with prescribed procedures.</p> <p>Trainings related to IT security policy and back up of data should also be organised.</p> <p>Level of priority: <i>Intermediate</i></p>	
N°	Findings identified during the System audits 2018-2020	Body	Status in January 2022	New deadline
	No open findings			

Out of 3 findings which remained open after the previous Annual Audit Activity Report, one of them is closed during the follow up.

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

N°	Findings identified during the System audit 2017	Body	Status in January 2022	New deadline
1.	Missing internal procedures and templates for fraud risk	CBC Body	<p><i>Partly implemented</i></p> <p>The Irregularity Officer is appointed but needs additional training on irregularities and fraud at the OS level.</p> <p>Level of priority: <i>Intermediate</i></p>	June, 2022
2.	Deficiencies in the Risk Management	CBC Body	<p><i>Partly implemented</i></p> <p>The Risk Officer is appointed but needs additional training on risk management have not been implemented yet.</p> <p>Level of priority: <i>Intermediate</i></p>	June, 2022
3.	Lack of Inter-institutional agreements	NIPAC HOS CBC Body Control Body	<p><i>Not implemented</i></p> <p>Inter-institutional agreements have not been endorsed yet.</p> <p>Level of priority: <i>Intermediate</i></p>	June, 2022
4.	Internal audit unit in the Ministry of Local Government Administration (MLGA)	HOS CBC Body	<p><i>Partly implemented</i></p> <p>IAU does not have a manual for auditing IPA funds and trainings for audit of EU funds have not been provided for IAU staff.</p> <p>Level of priority: <i>Intermediate</i></p>	December, 2022

N°	Findings identified during the System audit 2018	Body	Status in January 2022	New deadline
1.	Lack of Irregularity Officer and trainings in respect to irregularities	Control Body	Partly implemented The irregularity officer has been appointed, but needs additional training on irregularities and fraud at the OS level. Level of priority: <i>Intermediate</i>	June, 2022
2.	Deficiencies in the Risk Management	Control Body	Partly implemented The risk officer has been appointed, but needs additional training on risk management Level of priority: <i>Intermediate</i>	June, 2022
N°	Findings identified during the System audits 2019-2020	Body	Status in January 2022	New deadline
	No open findings			

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

Status of audit of operation findings:

N°	Findings identified during the Audit of operation 2020	Body	Status in January 2022	New deadline
1.	Ineligible expenditure related to the Human Resource (per diem for missions/travel) Project N°: CFCU/MNE/069 “Eco and Outdoor Tourism Actions of the Balkan Alps”	CFCU	Implemented Based on the submitted Written Approval Letter No:10-2084 from 10 th August 2021 as well as supporting documents it is evident that CFCU rejected costs related to the budget line 1. Human Resources (1.3 Per diems for mission travels) in accordance with the AA auditors’ recommendations. The finding is closed.	

One finding identified during the audit of operation performed in 2020 was closed during the follow up.

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

Not applicable.

8. OTHER INFORMATION

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

Not applicable.

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

Not applicable.

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

Not applicable.

9. OVERALL LEVEL OF ASSURANCE

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

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

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

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

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

Not applicable.

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

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

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

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

Not applicable.

10. TABLE FOR DECLARED EXPENDITURE AND SAMPLE AUDITS

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