



MONTENEGRO
AUDIT AUTHORITY

No: 3016-06-78

ANNUAL AUDIT ACTIVITY REPORT
OF THE AUDIT AUTHORITY
FOR PROGRAMME
AGRICULTURE AND RURAL DEVELOPMENT OF
MONTENEGRO - IPARD II

FOR THE PERIOD FROM 01 JANUARY UNTIL
31 DECEMBER 2017

Podgorica March 9th, 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 EU Funds (OG 14/12, 54/16, 37/17 and 70/17). The Audit Authority is responsible for audit of EU funds (IPA, Structural Funds after the accession of Montenegro to the European Union, and other EU funds). According to Article 3 of Law on Audit of EU funds, the AA is functionally and operationally independent of all of other stakeholders involved in the system of EU funds management and control.

The Law on Audit of EU Funds prescribes that auditees are public authorities and organizations, bodies and organizations of local government units, natural persons and legal entities receiving, using or managing EU funds.

The functions and responsibilities of the Audit Authority are set out in the Framework Agreement between Montenegro and the European Commission on the arrangements for implementation of Union financial assistance to Montenegro under the Instrument for Pre-accession Assistance (IPA II)- (OG MNE, No 5/2015) and in Commission Implementing Regulation (EU) No 447/2014 on the specific rules for implementing Regulation (EU) No 231/2014 of the European Parliament and of the Council establishing an Instrument for Pre-accession Assistance (IPA II).

The Audit Authority is responsible for verifying:

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

This report has been prepared solely by the Audit Authority of Montenegro, following the Annex D Annual Audit Activity Report (AAAR) of the FWA.

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 January to 31 December 2017.

Bearing in mind that the Financial Agreement for IPARD II Programme was signed on December 6st 2017, the Audit Authority has not been in position to perform audit regarding the financial year 2017.

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

The report covers the Programme for the Development of Agriculture and Rural Areas in Montenegro under IPARD II 2014-2020.

The total indicative costs for the implementation of the IPARD II program in Montenegro, including EU, national and private contributions, amount to EUR 86.8 million for the period 2014-2020, while the indicative contribution of the EU is 39 million €.

The IPARD II Management and control system has been entrusted with budget implementation tasks under the following measures of the IPARD II Programme:

- Investments in physical assets of agricultural holdings;
- Investments in physical assets concerning processing and marketing of agricultural and fishery products.

Structures and bodies being part of the Management and control system for IPARD II Programme are, as follows:

- National IPA Coordinator (NIPAC)
- The National Authorizing Officer (NAO)
- Management Structure - Directorate for Management Structure - (National Fund and NAO support office)
- Operating structure (Managing Authority and IPARD Agency)

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 and 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 shall set out, inter alia, any deficiencies found in the management, control and supervision systems and any corrective measures taken or planned by the NAO, National Fund and/or the operating structures concerned, and details of any substantial changes in the Management and control system.

In accordance with Art.59 (2) of the Framework Agreement between the Commission and Government of Montenegro, for the Programme IPARD II the NAO has submitted the Annual Management Declaration and Annual financial report for 2017, i.e. Annual Declaration of Accounts for financial year 2017 on 15th February 2018 (Ref.01-2690/1) to the Commission with copy to the NIPAC and AA .

With a view to drawing up an audit opinion, Audit Authority shall assess results of audit activities from the performed audits of management and control system, on sample of declared expenditure and accounts and assess the consistency of the management declaration with regard to performed audit work.

Based on the available information the Audit Authority prepares the Annual Activity Audit Report and the Annual Audit Opinion.

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

2. SUBSTANTIAL CHANGES IN MANAGEMENT AND CONTROL SYSTEMS

Not applicable.

3. CHANGES TO THE AUDIT STRATEGY

Not applicable.

4. SYSTEMS AUDITS

Not applicable- no system audit was performed.

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.	Programme for Agriculture and Rural development of Montenegro - IPARD II	Audit Authority of Montenegro	/	/	/	/	/	/	/

5. AUDITS OF SAMPLES OF TRANSACTIONS

Not applicable –no expenditure was declared to the Commission for the accounting 2017 year.

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

Taking into consideration that the Financial Agreement for IPARD II Programme was signed on December 6st 2017, and that Montenegro received advance payment for the respective program in the amount of 2.400.000,00 € on December 20th 2017 our audit was limited, i.e. focused only on the volume of Union funds on the MF – NF IPARD Account and related procedure.

In line with above mentioned, Audit Authority has performed reconciliation of the balance of the IPARD Euro Account declared in the annual declaration (D2) with the bank statement of the IPARD Euro account and has verified that amount stated in the annual declaration (D2) corresponds to the amount on the bank statement. We have identified that advance payment is recorded in accounting books and regularly shown in the balance sheet and cash flow statement related to the IPARD II Programme for period 01.01.2017 to 31.12.2017.

7. FOLLOW-UP OF PREVIOUS YEARS' AUDIT ACTIVITY

Not applicable.

8. OTHER INFORMATION

Not applicable.

9. OVERALL LEVEL OF ASSURANCE

Not applicable.

10. TABLE FOR DECLARED EXPENDITURE AND SAMPLE AUDITS

Not applicable for the first financial year.

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	%					
	2014ME06I4N P001	Programme for Agriculture and Rural development of Montenegro - IPARD II	/	/	/	/	/	/	/	/	/	/	/	/