



**MONTENEGRO  
AUDIT AUTHORITY**

No: 3011-4-06-142

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

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

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

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**LIST OF ABBREVIATIONS**

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

## 1. INTRODUCTION

### 1.1. Details of the responsible audit authority and other bodies that have been involved in preparing the report

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

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

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

The Audit Authority is responsible for verifying:

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

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

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

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

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

The overall objective of the system audit was to verify the effective and efficient functioning of the management, control and supervision system established in the whole structure, i.e. authorities responsible for implementation of 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES) under IPA II. For the purpose of detailed defining scope of the audit, we performed a risk assessment to determine the bodies and ICFR area which will be covered by system audit. For the preparation of Audit

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Strategy, risks were identified and taken into account at the programme/structure and authorities' level. Additionally, in order to define the key requirements within each body and ICFR area, we performed risk assessment at the level of each assessment criterion/requirement during system audit engagement planning. For more details about scope of system audits carried out, see sections 4.2 and 4.4.

With a view to verify the legality and regularity of declared expenditure, the AA of Montenegro conducted an audit of operations in the framework of the 2015-2017 Multi-annual Action programme for Montenegro on Employment, Education and Social policies on expenditure declared to EC in 2021. Costs declared as "recognised" in the Declaration of Expenditure (within the Request for Funds), and submitted by the NAO to the Commission, constitute the population for audits of operations/transactions.

During 2021 the NAO declared expenditure regarding 2015-2017 SOPEES through submission of one declaration of expenditure. The audit of operations was performed on the selected operations for which the expenditure was paid and the costs recognised by the Implementing Agencies (CFCU and PWA) with cut-off date 28<sup>th</sup> February 2021 and declared to the European Commission (EC). The Declaration for Expenditure (within the Request for Funds Instalment No.2) was sent to EC on 29<sup>th</sup> March 2021 (Letter No.14-4525/1). It included expenditure related to 25 operations/contracts - 10 service contracts, 3 supply contracts and 12 grant contracts.

Total amount of declared expenditure through this DoE was 1.877.790,26 EUR (EU contribution 1.572.127,78 EUR and IPA II Beneficiary or other third party contribution 305.662,48 EUR). Sampling unit which was used for the Audit of Operations for this year is contract/project. We applied non-statistical sampling (sampling was made in specialized CAAT tool CaseWare IDEA) as applicable for small populations and decided that our audit encompass the expenditure for 5 operations/contracts amounting to 412.223,54 EUR. For more details about scope of audit of operations/transactions carried out in 2021, see sections 5.2 and 5.7.

In order to reach the conclusion that the Annual Financial Report (AFR) gives a true and fair view, the Audit Authority verifies whether all elements required by models stipulated in Annex IV of the Financing Agreement concerning the 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES), i.e. cumulative amounts declared from the Programme, are correctly included in the accounts and correspond to the supporting accounting records maintained by bodies in the National Fund Division (NFD) and Implementing Agencies (Central Financing and Contracting Unit and Public Works Administration).

The summarized data regarding the total amounts contracted, decommitted, disbursed, recognized and open pre-financing as well as recoveries and bank balance, which were submitted in the AFR for 2021, is presented in the table below:

<i>Sectoral Operational Programme for Employment, Education and Social policies 2015-2017</i>		
<i>Financing Agreement CRIS No 2015/037-895</i>		
Total Amount Contracted	EU contribution	14.730.342,11
	National contribution	2.599.472,11
	Other sources	1.125.018,05
Total Amount Decommited on closure	EU contribution	0,00
	National contribution	0,00
	Other sources	0,00

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Total Amount Disbursed	EU contribution	10.436.435,15
	National contribution	1.841.723,87
	Other sources	0,00
Total Costs Recognized	EU contribution	5.958.828,29
	National contribution	1.051.557,92
	Other sources	400.146,97
Total Open Pre-financing	EU contribution	4.477.606,86
	National contribution	790.165,95
	Other sources	0,00
Recovery context	Errors	0,00
	Irregularities	0,00
	Fraud	0,00
	No context	2.166,68
Bank Balances (EU contribution)	Total	3.149.963,10

**Table 1**

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

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

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

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

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

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

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

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

- **National IPA Coordinator of Montenegro** - Chief Negotiator, European Integration Office within the Cabinet of Prime Minister of Montenegro.

- **The National Authorizing Officer of Montenegro** - State Secretary in the Ministry of Finance and Social Welfare.
- **Directorate for the Management Structure** with two separate divisions, one for financial issues (Division for National Fund) and one for the support to the NAO (Division for System Supervision).
- **The Operating Structure (OS)** composed of: NIPAC office, Implementing Agencies Central Finance and Contracting Unit (CFCU) and Public Works Administration (PWA), Project Implementation Units of the line ministries<sup>1</sup>: Ministry of Economic Development (former PIU in Ministry of Labour and Social Welfare), Ministry of Education, Science, Culture and Sports (former PIU in Ministry of Education and PIU in Ministry of Science), Ministry of Finance and Social Welfare (part for social policies from former Ministry of Labour and Social Welfare) and Ministry of Justice, Human and Minority Rights (former PIU in Ministry of Human and Minority Rights).

#### **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 systems.

The NAO prepares and, with copy to the NIPAC and the Audit Authority, provides the Commission with annual financial reports or statements on accrual basis which clearly distinguishes costs accepted and payments made, an annual management declaration per programme and a summary of the reports on the internal audits and of controls carried out by the management structure, providing a sound basis for the management declaration by 15<sup>th</sup> February of the following financial year.

With a view to drawing up an audit opinion, the 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 Audit Activity Report and the Annual Audit Opinion.

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

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<sup>1</sup> The new Government of Montenegro was established on 4th December 2020 and new Decree on the organization and manner of work of the state administration was adopted on 7th December 2020. The mentioned Decree has significantly changed the organization of the entire state administration and especially the organization of the PIUs within SOPEES. Accordingly, one part (employment policy) of PIU in former MLSW belonged to PIU in MED while second part (social welfare) belonged to PIU in MFSW; PIUs in former MoE and MoS have been merged in PIU in MESCS; PIU in former MHMR belonged to PIU in MJHMR.

## 2. SUBSTANTIAL CHANGES IN MANAGEMENT AND CONTROL SYSTEMS

The AA regularly monitored and gathered information on changes in the Management, Control and Supervision System (MCSS) and we reported on significant changes in MCSS in our AAARs. Within the previous AAAR (for 2020), we reported about significant changes which occurred until the end of December 2020.

In this AAAR we described significant changes occurred in the period from 1<sup>st</sup> January to 31<sup>st</sup> December 2021.

### 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/Deputy NAO informed the European Commission and Audit Authority about substantial and planned changes in the system.

#### ➤ Personal changes

##### *National Authorising Officer*

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

Deputy NAO informed European Commission and Audit Authority on this personal change on 5<sup>th</sup> March 2021. (Letter No: 01-3284/1).

##### *Deputy National IPA Coordinator*

Ms Ivana Vujošević left the position of Deputy NIPAC within NIPAC Office. Change occurred in August 2021.

At the session held on 30<sup>th</sup> July 2021, the Government of Montenegro gave its consent to the proposal regarding the appointment of Mr Bojan Vujović on the position of the Deputy Chief Negotiator – National IPA Coordinator. The NAO informed European Commission and Audit Authority on this personal change through NAO AMD Assessment Report on functioning of MCSS for the year 2021 submitted to EC on 15<sup>th</sup> February 2022.

##### *Head of Directorate for Management Structure*

Ms Ivana Maksimović was appointed to perform the function of Acting Director General of Directorate for Management Structure. Change occurred on 1<sup>st</sup> October 2021 on the Government session. The NAO informed European Commission and Audit Authority on this personal change through NAO AMD Assessment Report on functioning of MCSS for the year 2021 submitted to EC on 15<sup>th</sup> February 2022.

##### *Head of CFCU/IA*

Ms Marija Vukčević was appointed to perform the function of Acting Director General of Directorate for Financing and Contracting of EU funds CFCU. Change occurred on 1<sup>st</sup> October 2021 on the Government session. The NAO informed European Commission and Audit

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

***Head of PWA/IA***

Mr Rešad Nuhodžić terminated his engagement on the position of the Head of IA Public Works Administration. Change occurred in February 2021.

Mr Boro Lučić has been appointed on the position of the Acting Head/Director of the IA Public Works Administration. Change occurred in February 2021.

The NAO informed European Commission and Audit Authority on these personal changes through NAO AMD Assessment Report on functioning of MCSS for the year 2020 submitted to EC on 15<sup>th</sup> February 2021.

***SPO in PIU in the Ministry of Education, Science, Culture and Sports***

Ms Mubera Kurpejović has been resigned from the position of SPO in the former Ministry of Education. Change occurred in January 2021. The NAO informed European Commission and Audit Authority on these personal changes through NAO AMD Assessment Report on functioning of MCSS for the year 2020 submitted to EC on 15<sup>th</sup> February 2021.

Mr Goran Drobnjak has been designated to perform the function of the Director General/SPO of the Directorate for European integration, programming and implementation of EU funds and international cooperation within Ministry of education, science, culture and sports. Decision on appointment made on Government of Montenegro session, held on April 14<sup>th</sup> 2021. The NAO informed European Commission and Audit Authority on this personal change through NAO Progress Report on IPA II Programmes managed under indirect management by Montenegro covering period January 1<sup>st</sup> 2021–June 30<sup>th</sup> 2021 (Cover letter 01-10692/1 from 30<sup>th</sup> July 2021).

***SPO in PIU in the Ministry of Economic Development***

Ms Ivana Janković Mijanović appointed on the position of SPO/Head of Department within PIU of Ministry of Economic Development. Change occurred in May 2021. The NAO informed European Commission and Audit Authority on this personal change through NAO Progress Report on IPA II Programmes managed under indirect management by Montenegro covering period January 1<sup>st</sup> 2021–June 30<sup>th</sup> 2021 (Cover letter 01-10692/1 from 30<sup>th</sup> July 2021).

***SPO in PIU in the Ministry of Justice, Human and Minority Rights***

Ms Lidija Mašanović left the position of SPO/Acting Director General of Directorate for international cooperation and has been appointed to perform the function of the Head of Division for European integration and international cooperation. Change occurred in October 2021. The NAO informed European Commission and Audit Authority on this personal change through NAO AMD Assessment Report on functioning of MCSS for the year 2021 submitted to EC on 15<sup>th</sup> February 2022.

***SPO in PIU in the Ministry of Finance and Social Welfare***

Mr Šučo Orahovac has been appointed to perform the function of Director General of Directorate for European integration and international cooperation/SPO Change occurred on the Government session held on October 1<sup>st</sup> 2021. The NAO informed European Commission and Audit Authority on this personal change through NAO AMD Assessment Report on functioning of MCSS for the year 2021 submitted to EC on 15<sup>th</sup> February 2022.

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

The changes that occurred in MCSS in 2021 have been communicated to the European Commission and the Audit Authority.

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

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

### **3. CHANGES TO THE AUDIT STRATEGY**

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

According to the Article 12 of Commission Implementing Regulation No 447/2014 the Audit Authority shall carry out audit in accordance with Audit Strategy prepared on a tri-annual basis.

The Audit Strategy for IPA II 2015-2017 Sectoral operational programme for Montenegro on Employment, Education and Social policies (SOPEES) was prepared and submitted to the European Commission with a copy to the NAO in November 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 Auditor General.

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

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

Not applicable.

### **4. SYSTEM AUDITS**

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

The audit body that has carried out system audit in 2021 is Audit Authority of Montenegro, Department for audit of the programs - employment, social policies, education, promotion of gender equality and development of human capacities. The Audit Authority of Montenegro, as an independent audit body, was established by the Law on Audit of European Union funds ("Official Gazette of Montenegro" No 14/12, 54/16, 37/17 and 70/17).

In accordance with the Law on Audit of EU Funds and the Audit Strategy 2021-2023 for the 2015-2017 Sectoral operational programme for Montenegro on Employment, Education and Social policies (SOPEES), the AA of Montenegro conducted an audit of the management, control and supervision system (hereinafter: MCSS) established in bodies being the part of the management and operating structure of the Programme.

#### 4.2. Summary table of the audits carried out

Audit period	1. Programme (CCI and title)	2. Audit Body	3. Audited Body (-ies)	4. Date of the audit	5. Scope of the audit	6. Principal Findings and conclusions	7. Problems of systemic character and measures taken	8. Estimated financial impact (if applicable)	9. State of follow-up (closed /or not)
November/December 2020 - November/December 2021	C(2015) 9051 09/12/2015 CRIS decision No. 2015/037-895  Multi-annual action programme for Montenegro on Employment, Education and Social policies	Audit Authority of Montenegro	MJHMR/ PIU	May - December 2021	ICFR 3  ICFR 4  ICFR 5	Deficiencies in functioning of the PIU in MJHMR.	/	/	Open
November/December 2020 - November/December 2021	C(2015) 9051 09/12/2015 CRIS decision No. 2015/037-895  Multi-annual action programme for Montenegro on Employment, Education and Social policies	Audit Authority of Montenegro	PWA / IA	May - December 2021	ICFR 3  ICFR 5	Deficiencies within the process of approving costs and execution of payments	/	/	Open
November/December 2020 - November/December	C(2015) 9051 09/12/2015 CRIS decision No. 2015/037-895  Multi-annual action	Audit Authority of Montenegro	PWA / IA CFCU / IA	May - December 2021	ICFR 3  ICFR 5	Reconciliations between IAs and contractors' ledgers	/	/	Partially implemented

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2021	programme for Montenegro on Employment, Education and Social policies								
November/December 2020 - November/December 2021	C(2015) 9051 09/12/2015  CRIS decision No. 2015/037-895  Multi-annual action programme for Montenegro on Employment, Education and Social policies	Audit Authority of Montenegro	MED/PIU	May - December 2021	ICFR 3  ICFR 4  ICFR 5	Non-recording of assets	/	/	Open
November/December 2020 - November/December 2021	C(2015) 9051 09/12/2015  CRIS decision No. 2015/037-895  Multi-annual action programme for Montenegro on Employment, Education and Social policies	Audit Authority of Montenegro	NIPAC Office	May - December 2021	ICFR 2  ICFR 5	Insufficient understanding of the risk management process.	/	/	Open

**Table 2**

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

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

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

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

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

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

### **4.4. Details of the audits carried out**

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

On the basis results of performed risk assessment during the preparation of the Audit Strategy 2021 – 2023, understanding of audit environment and performed risk assessment during the preparation phase of system audit, we decided which bodies, audit areas (ICFR, sub-criteria, and processes) as well as specific audit/compliance objective per audit area would be covered. As a results of performing previously mentioned activities, we decided to audit the following IPA bodies: NAO/NAOSO, NFD, CFCU, PWA, PIU in the Ministry of Economic Development (former PIU in MLSW), PIU in the Ministry of Education, Science, Culture and Sports (former PIUs in MoE and MoS) and PIU in the Ministry of Justice, Human and Minority Rights (former PIU in MHMR).

After the system audits have been completed, we conducted a quantitative and qualitative

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analysis of the results of the implemented activities. We evaluated the assessment criteria for each ICFR and afterwards drawn a conclusion by ICFR. Based upon the results of the categorisation of each ICFR, we reached conclusion by body and then made the overall conclusion on the MCSS of the programme.

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

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

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

<b>ICFR \ AUDITEE</b>	<b>NAO / NAOSO</b>	<b>NF</b>	<b>CFCU IA</b>	<b>PWA IA</b>	<b>MED PIU</b>	<b>MESCS PIU</b>	<b>MJHMR PIU</b>	<b>NIPAC Office</b>	<b>TOTAL per ICFR</b>
<b>2(a)</b> Objective setting	/	/	/	/	/	/	/	1	1
<b>2(b)</b> Risk identification, assessment and response	/	/	/	/	/	/	/	2	2
<b>ICFR 2</b>	/	/	/	/	/	/	/	2	2
<b>3(a)</b> Selection and development of control activities	/	2	2	2	2	2	3	/	2
<b>ICFR 3</b>	/	2	2	2	2	2	3	/	2
<b>4(a)</b> Information to support functioning of internal controls	/	1	/	/	1	1	3	2	2
<b>ICFR 4</b>	/	1	/	/	1	1	3	2	2
<b>5(a)</b> On-going and specific monitoring	1	1	1	1	1	1	3	2	2
<b>ICFR 5</b>	/	/	1	2	1	1	3	2	2
<b>TOTAL per IPA body:</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>2</b>	<b>2</b>

**Table 3**

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

Principal findings identified in the particular ICFR are as follows:

## **ICFR 2 – RISK MANAGEMENT**

### **➤ Finding No 1: Insufficient understanding of the risk management process**

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

According to the MoP (V2.0), Chapter Risk Management, the following is prescribed:

“Risk management goal is to bring the related risks to an acceptable level by carrying out measures that would mitigate the likelihood of risk occurrence, impact of risk realization or both at the same time.

Analysis of risks with defined level of risk acceptance may provide reasonable assurance that the objectives will be achieved. However, even a well-designed and operated Risk management cannot guarantee that all objectives will be fully achieved.

In practice, Risk management activity at any level of the IPA structure and authorities is implemented by:

- Preventive actions;
- Administrative verifications;
- On-the-spot verifications;
- Any other action/ initiative that may mitigate identified risks.

The Risk management includes different activities like identifying, assessing, prioritizing risks, planning, implementation and review of mitigating or corrective actions as well as in advance planning and control.”

“A Risk Management Panel (RMP) shall be set up in order to bring together the RMs of the bodies constituting the internal control system for IPA II.

Risk Management Panel consists of:

- Risk Coordinator;
- Risk Managers of IPA OS Bodies involved;
- respective Internal auditors, when appropriate.“

Based on documentation obtained, desk checks performed and interviews conducted, we determined that risk management activities are not at satisfied level.

During the performance of audit activities in the NIPAC office, we found that all formal requirements in the process of risk management had been met, that risks were recognized, alert forms were filled in and entered into the risk register and the action plan had been made.

Despite all the formally met conditions in the process of identifying risks and planning actions that will reduce them, we consider that this is an area that needs more attention in order to improve this process and thus contribute to achieving the set goals. We got an impression that everything is done only in order to satisfy formal requirements. Namely, while we were analysing documentation related to risk management process, we noticed the following:

- All risks were open even those that were identified in 2019;
- One of the risks with score four had simply “disappeared”. Namely, the risk “Establish PIUs in the line ministries” was open in December 2020 and in July 2021 it was simply removed from the risk register without identifying whether it was closed or still open;
- Further, a question may be asked: on the basis of which actions or measures the risk likelihood or impact has been changed? For example, in November 2019 the risk „Lack of inputs from the PIUs for full implementation of monitoring procedures” had an

impact 3. In December 2020 impact of the same risk was 1 without identifying what has been done in order to decrease the risk impact;

- Risks and mitigation measures were defined in an excessively general way. From the Risk Register and Risk Action Plan it could be identified what IPA body wants to achieve but not how specifically they are going to implement that;
- Timelines, in most cases, were not specifically defined (mostly deadline is “continuously”);
- Risk alert forms for the same risk had been updated several times without any significant change regarding the description, impact, likelihood or mitigating measures;
- Within the Risk Action Plan the column „Responsibility assigned to the person/authority”, in most cases, says the “NIPAC Office”. Thus, there is no clear responsibility addressed.

Additionally, we found that Risk panel had been regularly held. The last one (November 2021) was well prepared. Part of the time was dedicated to education and improvement of knowledge in the field of risk management. However, we determined that Risk Manager from NIPAC Office had not attended this Risk Panel.

### **Recommendation:**

We recommend to NIPAC office to ensure the presence of the staff involved in the risk management process to Risk Panels and additional trainings that will provide them with detailed instructions on adequately dealing with risk management. These trainings should be designed to contribute to a better understanding of risk management and dealing with it, a clearer defining of risks and mitigating actions, etc.

We recommend clearly defining risks, their impact and likelihood, mitigating measures and actions, timeliness and responsibilities in order to ensure proper and effective dealing with the risk management process.

## **ICFR 3 – CONTROL ACTIVITIES**

### **➤ Finding No 2: Deficiencies in functioning of the PIU in MJHMR<sup>2</sup>**

#### **Body/-ies concerned by the finding: PIU in MJHMR**

According to the MoP 2.0: “The Annual Work Plan is being prepared based on managers and staff meeting aiming to establish goals/objectives for specific periods of time (yearly or twice a year) based on organizational needs.

The Annual Work Plan should include the organization’s state of mission, values and main goals that trigger the operational objectives for the on-going period of time (next year).

- It provides an overall direction of the organization and a context for monitoring and evaluation of its performance.
- It provides input for the Work Load Analysis
- It provides the basis for determining the institutional development budget.

The Annual Work Plan shall be prepared by each IPA Body following an internal discussion between the staff and the Head of the organization on specific objectives and activities ensuring achievement of set objectives, by **31<sup>st</sup> December for the following year**. The Annual Work Plan shall be based on plans for the following year, taking fully into consideration lessons

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<sup>2</sup> This finding encompassed issues related to ICFR 3, ICFR 4 and ICFR 5. All deficiencies found in this PIU were summarized in one finding.

learned and implementation of the activities defined by the plans for the previous years.

A monitoring of the progress of implementation of the plan shall be carried out by the Head of IPA Body on a **semi-annual basis** in July and December (twice a year) and the progress shall be discussed with the staff. The plan shall be updated, in case the Head of IPA Body decides that changes that have occurred have the impact on it. The AWP, its updates and monitoring shall be available to the staff.”

Also, in the Chapter Internal Control System it is prescribed that for the purposes of supporting the NAO in performing his/her responsibility for effective functioning of the internal control systems, the PIU shall inform NAO ex-ante on any substantial change in the management and control system and obtain prior approval from the NAO. The Chapter “Communication and reporting” prescribes that one of the SPO/PIU responsibilities is immediate notification to the NAO of any substantial change concerning its internal control system. Significant changes to the management and control system are defined in MoP 2.0 Chapter on Internal Control, Section 5.

Within the Chapter Programme Action Monitoring the following is prescribed: “Quarterly Action Monitoring Reports (QAMR) shall be drawn up under the coordination of NIPAC office and prepared by PIUs/Lead SPOs.” Therefore, PIU/SPO has the obligation and the responsibility to draw up action monitoring reports quarterly and submit it to the NIPAC Office, which is responsible for preparing the Annual Report on Implementation of IPA II assistance and the Final Report on Implementation of IPA II assistance. QAMRs shall be submitted to the NIPAC office, quarterly during the year, with the following cut-off dates: 31st March, 30th June, 30th September and 31st December. QAMR shall be prepared and submitted to the NIPAC office 10 working days after the cut-off dates.”

Based on documentation obtained, desk checks performed and interviews conducted, we determined a number of deficiencies. Namely, the Annual Work Plan for 2021 and Work Load Analysis were not prepared by PIU in MJHMR. Consequently, we found that semi-annual monitoring of AWP had not been performed.

Also, we determined that PIU had not informed NAO on any substantial change in the management and control system, although significant changes happened in PIU during 2021. For instance, we noticed that the SPO in the MJMHR had been changed in 2021 and the NAO had not been notified.

Additionally, we determined that monitoring activities regarding IPA II 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES) had not been at satisfactory level and had not been in accordance with prescribed procedures. We found that responsible persons from PIU had not prepared and submitted QAMRs during 2021 on a regular basis. Namely, we determined that first and second QAMR for 2021 had been drafted by former Programming Manager and approved by former SPO. However, these reports were not checked, approved/signed and sent to the NIPAC Office by the present/current SPO. So, at the moment of preparation of QAMRs for I and II Q 2021, the persons/employees who drafted them, formally were not the part of PIU in MJHMR. The QAMRs for III and IV Q 2021 were not prepared at all.

In general, we concluded that PIU in MJHMR had not taken over, in its’ full capacity, the responsibilities and obligations concerning IPA II 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES). We received the most of information and documentation during this system audit from former SPO who is now not the part of the current PIU.

This situation in PIU can jeopardize the adequate implementation of contracts that are within

their competence and lead to bigger problems in the functioning of the system. We will closely monitor this situation in the upcoming period.

**Recommendation:**

We recommend to PIU in MJHMR to take on all responsibilities and obligations related to implementation of IPA II 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES) and meet them in accordance with provisions of relevant regulations and in line with prescribed procedures.

The fulfilment of all prescribed responsibilities and obligations under the competence of this PIU will be closely monitored in the upcoming period and timely checked and reported.

➤ ***Finding No 3: Deficiencies within the process of approving costs and execution of payments***

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

The Directions on State Treasury Operations (OG MN No. 20/14), Article 154, prescribes the following: *“Funds for the implementation of the payment request funded by the EU are provided with the transfer from the IPA account to the main account of the state treasury and at the same day the payment is made to the supplier/contractor, including part which is funded by the EU as well as the part that is co-funded from national resources”*.

According to the Manual of Procedures (V2.0) of OS, chapter Financing Management, section 4.2. Payments to contractors/grant beneficiaries, the whole payment procedure with set-up deadlines for each step is prescribed.

Also, in Section 4.2.3 within Chapter Financial management of MoP specific operational procedure related to approval of financial reports/approval of costs is defined and, inter alia, prescribes the following: *“The written approval of reports (narrative and financial part) shall contain information on approval/rejection of narrative part of the report and financial part of the report. In that respect, IA FD shall provide data regarding financial report and cost recognized to the IA CD, who is in charge for preparation of written approval.”*

During the examination and checks performed in PWA related to payment procedures, we identified deficiencies in respect to approval of financial reports/approval of costs and in payment execution. By reviewing and analyzing the documentation regarding the interim payment for the service contract No PWA/MNE/IPAII/SOPEES/SER/01-22/1 and final payment for the service contract No PWA/MNE/IPAII/SOPEES/SER/01-908/20-4327/2, we determined that PWA (IA) had not issued “written approval” for costs approved concerning these two payments. The PWA as Implementing Agency requested from MESCS (PIU) to issue “Read & Approved Visa” and received it, performed appropriate controls for interim and final payment and signed the relevant checklists and sent Requests for Funds to DMS/NFD. Although in both cases requests for payment were fully approved (by FC1 and FC2) by filling and signing relevant checklists for service contract and payment execution approved (by Head of FD) and authorized (by Head of PWA), written approval had not been issued for reports (narrative and financial where applicable) and costs approved, i.e. costs which were verified and validated and accordingly declared to DMS/NFD within the Request for Funds. This is not in line with prescribed procedures in MoP Chapter Financial Management.

Additionally, we determined that execution of final payment for the second service (global price) contract had not been done in line with provisions of Directions on State Treasury

Operations and prescribed payment deadlines in MoP. Namely, steps within the procedure related to this payment were done as follows:

- Invoice was received on 24<sup>th</sup> December 2020, relevant checks were performed and Read & Approved Visa submitted by PIU.
- Request for Funds to DMS/NFD was sent on 16<sup>th</sup> February 2021.
- Deputy NAO approved RfF on 24<sup>th</sup> February 2021 and transfer of funds (EU part) from MF-NF IPA account to the State Treasury Main Account was made on the same day (24<sup>th</sup> February).
- Payment order was prepared by PWA on 2<sup>nd</sup> March 2021.
- Execution of payment was done on 9<sup>th</sup> March 2021.

Considering timeline of previously mentioned steps within payment procedure for this service contract and the provisions of Directions on State Treasury Operations as well as prescribed payment procedures (with deadlines) in MoP (V2.0) chapter Financial management, it is evident that deadline for payment execution was not respected in this case. It took too long from the moment of transferring the funds by NFD from MF-NF IPA account to the State Treasury Main Account until PWA prepared payment order in SAP and until payment was executed to the contractor.

**Recommendation:**

We recommend to PWA (IA) to respect prescribed procedures in the Manual of Procedures related to approval of financial reports/approval of costs and accordingly to issue Written approval (for narrative and financial part) before payment execution.

We recommend to PWA to ensure that payment order is prepared and sent to the State Treasury for execution in line with the provisions of Directions on State Treasury Operations and prescribed payment procedures in Manual of Procedures.

➤ ***Finding No 4: Reconciliations between IAs and contractors' ledgers***

**Body/-ies concerned by the finding:** Implementing Agencies - PWA and CFCU

According to the Manual of Procedures (V2.0) of OS, chapter Accounting, section 8.2. Reconciliation between IA and Contractor's ledgers, the obligation of reconciliations is prescribed as follows:

“Reconciliation on outstanding receivables and recoveries between the IA and the Contractor's ledgers has to be made once a year at the end of financial year for the previous year.

The IA shall transmit to the Contractor Reconciliation Form (Annex 12) together with the accompanying letter requesting confirmation of the balances on reconciliation form. Upon receipt of the Contractor's information the IA does the counter check. In case that the contractor/grant beneficiary does not return signed Reconciliation Form to the IA within 10 working days after receipt, the IA will consider that the account balance in the ledgers of on the contractor/grant beneficiary correspond to the account balance in the IA ledgers.”

During the examination of documentation and checks performed in Implementing Agencies (CFCU and PWA) related to the accounting procedure, we identified deficiencies in respect to reconciliations between IAs' and Contractors' ledgers.

The PWA as Implementing Agency did not perform any reconciliation with contractors at the end of 2020 for the contracts signed within SOPEES 2015-2017.

The CFCU (IA) transmitted to the Contractors Reconciliation Forms (Annex 12) in February 2021 with the reconciliation date on 31<sup>st</sup> December 2020. On the basis of evidence obtained, we found that only one contractor had returned signed Reconciliation Form to the CFCU, while the rest of them, according to the CFCU staff statements, did not respond within the proposed deadline (10 days). By comparison data from transmitted reconciliation forms and data from CFCU's accounting records, we determined that Reconciliation Form (Annex 12) for the Service contract No CFCU/MNE/083 had not contained the amount of "Receivables from the contract/grant beneficiary for advances" (account 1158), although we found that the amount of advanced payment, which was not cleared until the reconciliation date (31/12/2020), was entered into the accounting records.

**Recommendation:**

We recommend to PWA (IA) to respect prescribed procedures in the Manual of Procedures related to yearly reconciliations with contractors.

We recommend to CFCU (IA) to perform reconciliations with contractors on the basis of precise and exact amounts of balances at relevant accounts (1155, 1158, 2310) at the reconciliation date.

➤ *Finding No 5: Non-recording of assets*

**Body/-ies concerned by the finding:** PIU in MED

The Law on State-Owned Property stipulates the obligation of keeping records of the state-owned property as well as obligation of establishing single records of the state-owned property.

The Decree on Manner of Keeping Records of Movable and Immovable Property and on Inventory in the State-Owned Property regulates the manner of keeping records on the condition and changes on movable and immovable items in the state-owned property, as well as on the manner of their inventory by state bodies, local government bodies and public service authorities founded by Montenegro.

Instructions on closer method of making inventory of movable and immovable state-owned property regulates closer method of making inventory of movable and immovable state-owned property. The inventory of movable and immovable items, according to this Instruction, shall be made by state bodies, local self-government bodies and public service authorities. The authorities shall submit data on movable and immovable items to the authority in charge of property operations in electronic form, for the purpose of keeping Real Estate Registry, i.e. accounting records of movable items, and the same authorities shall submit by the end of February of the current year for the previous year.

IPA bodies of the Operating Structure responsible for management and implementation of the Sectoral Operational Programme for Employment, Education and Social Policies 2015-2017 were equipped with ICT equipment through the Action 4 – Technical Assistance of this OP. According to the Supply Contract for European Union external actions "Equipping Operating Structure for SOPEES 2015-2017, Lot 1 - Computer and Accessories (ICT Equipment)", No. CFCU/MNE/087, a portion of ICT equipment were purchased for needs of PIU in MED (former PIU in MLSW). Namely, in November 2019 former PIU in MLSW received equipment in total value of 25.640,00 EUR and signed handover certificate for the following items:

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No	EQUIPMENT	Piece	Price per piece	Summary price
1.	CANON IXUS 185 BLACK	1	150,00€	150,00€
2.	180X180 SA TRONOSCEM	1	60,00€	60,00€
3.	EPSON L1800 A3 CIICD82401	1	380,00€	380,00€
4.	HP ELITEBOOK 840 (36 i5-8265U WG26AV)	10	1.175,00€	11.750,00€
5.	HP P224 21.5" 5QG34AA	9	145,00€	1.305,00€
6.	HP PRODESK 400 G6 SFF 138100 6EF24AV	9	620,00€	5.580,00€
7.	LEXMARK MX421ade 369710 PRINTER	2	330,00€	660,00€
8.	LEXMARK MX826	1	3.480,00€	3.480,00€
9.	QNAP TS431P2-1G	1	475,00€	475,00€
10.	UNIBINDER 8 2	1	1.800,00€	1.800,00€
			<b>TOTAL:</b>	<b>25.640,00€</b>

*Table 4*

However, we determined that part of this equipment had not been adequately recorded/listed in the ministry's register. Namely, ten laptops (HP ELITEBOOK 840) worth 11.750,00 EUR were left out of the inventory list which is not in line with aforementioned regulations. In this case it is not possible to determine with certainty which employees have taken over the equipment and who is responsible for it. All equipment had to be listed in line with provisions of relevant regulations and inventory lists submitted to the property administration within the prescribed deadlines.

Inadequate and incomplete inventory register could lead to the potential risk of losing property without the possibility of establishing the responsibility of that loss.

### **Recommendation:**

We recommend that all property purchased for PIU in MED be properly listed and entered into the property register of ministry, registration numbers be assigned in order to ensure that the exact location and user of each item is easy to identify.

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

During the conducted system audits in 2021, no findings were found with systemic character.

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

Not applicable.

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

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

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Due to the fact that, in accordance with our conclusion, PIU in MJHMR has not taken over, in its full capacity, the responsibilities and obligations concerning IPA II 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES), we rated this PIU in Category 3 - Works partially; substantial improvement(s) are needed. We will closely monitor this situation in the upcoming period. However, the rest of management and operating structure functioned, more or less, effectively in the previous period as well as the implementation of all actions/activities and projects under the SOPEES 2015-2017. Taking this into account, we consider that the rating of this PIU, at the moment, does not have significant influence to the whole OS and we rated the MCSS in Category 2 - Works, but some improvement(s) are needed (2).

Overall conclusion for MCSS, based on the results of this year system audit and professional judgement is presented in table below, per each ICFR:

<b>INTENAL CONTROL FRAMEWORK</b>	<b>Works well. No or only minor improvement(s) are needed</b>	<b>Works, but some improvement(s) are needed</b>	<b>Works partially; substantial improvement(s) are needed</b>	<b>Essentially does not work</b>
1. CONTROL ENVIRONMENT	N/A	N/A	N/A	N/A
2. RISK MANAGEMENT		X		
3. CONTROL ACTIVITIES		X		
4. INFORMATION AND COMMUNICATION		X		
5. MONITORING OF INTERNAL CONTROL FRAMEWORK		X		
<b>Overall conclusion</b>	<b>Works, but some improvements are needed</b>			

*Table 5*

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

## 5. AUDITS OF SAMPLES OF TRANSACTIONS

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

In accordance with the Law on Audit of EU Funds and the Audit Strategy 2021-2023 for the 2015-2017 Sectoral operational programme for Montenegro on Employment, Education and Social policies (SOPEES), the AA of Montenegro, Department for audit of the programs - employment, social policies, education, promotion of gender equality and development of human capacities, conducted an audit of operations in the framework of the 2015-2017 Multi-annual Action programme for Montenegro on Employment, Education and Social policies.

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

Selecting the sample of operations for testing was performed according to the methodology defined by AA's Audit Manual (Annex 6), as well as in accordance with EC Guidance on sampling methods for audit authorities – Programming periods 2007-2013 and 2014-2020 and was performed in accordance with the Audit Strategy 2021 – 2023 for the 2015-2017 Sectoral operational programme for Montenegro on Employment, Education and Social policies (SOPEES).

When performing sampling for the purposes of audit of transactions/operations the Audit Authority may apply following sampling methodologies (in accordance with audit manual and EC guidelines):

- Statistical sampling - Monetary Unit Sampling (MUS) – standard approach;
- Non-statistical sampling - small populations (random selection, non-random selection).

Costs declared as “recognised” in the Declaration of Expenditure (within the Request for Funds), and submitted by the NAO/Deputy NAO to the Commission in 2021, constituted the population for the Audit of operations/transactions. Sampling unit which was used for the Audit of Operations for this year is contract/project. In 2021 the NAO/Deputy NAO submitted to EC one Declaration of Expenditure which included expenditure related to 25 contracts (operations) - 10 service contracts, 3 supply contracts and 12 grant contracts. As the number of operations for an accounting year was small and therefore insufficient to allow the use of a statistical method, we applied non-statistical sampling by random selection of items. In order to ensure randomness of the sample and its representativeness, we applied random sampling using specialized CAAT tool CaseWare IDEA and decided that our audit encompass the expenditure for 5 operations/contracts.

### 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. We applied non-statistical sampling as applicable for small populations.

**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**

The audit of operations in the framework of the IPA II 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies has been performed on the selected operations for which the expenditure was paid and the costs recognised by the Implementing Agencies CFCU and PWA and declared to the European Commission (EC) in 2021. The Declaration for Expenditure (within the Request for Funds Instalment No.2) was sent to EC on 29th March 2021 (Letter No.14-4525/1).

Total amount of declared expenditure through this DoE was 1.877.790,26 EUR (EU contribution 1.572.127,78 EUR and IPA II Beneficiary or other third party contribution 305.662,48 EUR). The structure of operations/contracts by type of contract, for which the expenditure had been declared, is the following: 10 service contracts, 3 supply contracts and 12 grant contracts. The overview of these expenditures is shown in the following table:

<b>Population for Audit of operations 2021</b>							
No	Action	Contract No	Type of contract	Costs recognized (Total)	Costs recognized EU contrib.	Costs recognized National	Costs recognized Private
1	1	CFCU/MNE/083	Service	163.775,03	139.208,78	24.566,25	0,00
2	4	CFCU/MNE/084	Service	285.455,94	242.637,55	42.818,39	0,00
3	1	CFCU/MNE/085	Service	191.406,86	162.695,83	28.711,03	0,00
4	4	CFCU/MNE/087	Supply	89.985,00	76.487,25	13.497,75	0,00
5	2	CFCU/MNE/088	Service	145.149,36	123.376,96	21.772,40	0,00
6	2	CFCU/MNE/089	Service	54.172,54	46.046,66	8.125,88	0,00
7	2	CFCU/MNE/090	Service	346.497,31	294.522,71	51.974,60	0,00
8	2	CFCU/MNE/091	Service	112.155,57	95.332,23	16.823,34	0,00
9	3	CFCU/MNE/092	Service	184.281,93	156.639,64	27.642,29	0,00
10	4	CFCU/MNE/091-0	Supply	2.840,00	2.414,00	426,00	0,00
11	2	CFCU/MNE/106	Supply	46.990,00	39.941,50	7.048,50	0,00
12	2	CFCU/MNE/128	Grant	14.258,40	10.544,09	1.860,72	1.853,59
13	2	CFCU/MNE/129	Grant	14.922,83	10.124,70	1.786,71	3.011,42
14	2	CFCU/MNE/130	Grant	50.960,04	38.567,42	6.806,02	5.586,60
15	2	CFCU/MNE/131	Grant	4.991,66	3.816,35	673,47	501,84
16	2	CFCU/MNE/133	Grant	7.384,14	5.518,85	973,91	891,38
17	2	CFCU/MNE/134	Grant	21.959,05	16.798,68	2.964,46	2.195,91
18	2	CFCU/MNE/135	Grant	33.327,14	22.620,94	3.991,93	6.714,27
19	2	CFCU/MNE/136	Grant	11.999,55	8.669,67	1.529,94	1.799,94
20	2	CFCU/MNE/137	Grant	8.980,57	6.870,13	1.212,38	898,06
21	2	CFCU/MNE/138	Grant	8.215,18	6.110,07	1.078,25	1.026,86
22	2	CFCU/MNE/139	Grant	13.951,91	10.673,21	1.883,51	1.395,19
23	2	CFCU/MNE/140	Grant	23.531,15	18.001,33	3.176,70	2.353,12
24	2	PWA/MNE/IPAII/SOPEES /SER/01-22/1	Service	25.699,10	21.844,24	3.854,87	0,00
25	2	PWA/MNE/IPAII/SOPEES /SER/01-908/20-4327/2	Service	14.900,00	12.665,00	2.235,00	0,00
<b>TOTAL:</b>				<b>1.877.790,26</b>	<b>1.572.127,78</b>	<b>277.434,30</b>	<b>28.228,18</b>

Table 6

We applied non-statistical sampling (sampling was made in specialized CAAT tool CaseWare IDEA) as applicable for small populations and decided that our audit encompass the expenditure for 5 operations/contracts amounting to 412.223,54 EUR.

General information about the audited Operations/contracts is presented in the following table:

<b>General information</b>	
Operational Programme	<b><i>2015-2017 Multi-annual Action programme for Montenegro on Employment, Education and Social policies</i></b>
Reference No (CCI number)	<b><i>C(2015)9051</i></b>
Actions	<p><b>Action 1.</b> <i>Improving the labour market and increasing employability;</i></p> <p><b>Action 2.</b> <i>Enhancing the education system;</i></p> <p><b>Action 4.</b> <i>Technical Assistance.</i></p>
Activities	<p><b>Activity 1.2</b> <i>Development of local employment initiatives</i></p> <p><b>Activity 2.3</b> <i>Development and adjustment of the educational programmes, and provision of material resources for the implementation of programmes for the SEN - Special Education Needs children, persons with disabilities and members of marginalised groups, especially members of RE population and development and implementation of an action plan for removing architectural barriers in institutions at all levels of education</i></p> <p><b>Activity 2.4</b> <i>Support to the employment of scientists in academic and/or business sector</i></p> <p><b>Activity 4.1</b> <i>Support to management and implementation of SOP</i></p>
Body responsible for the Action and Project Implementation Unit	<p><b>PIU for Activity 1.2</b> - Ministry of Economic Development (former Ministry of Labour and Social Welfare);</p> <p><b>PIU for Activity 2.3</b> - Ministry of Education, Science, Culture and Sports (former Ministry of Education);</p> <p><b>PIU for Activity 2.4</b> - Ministry of Education, Science, Culture and Sports (former Ministry of Science);</p> <p><b>PIU for Activity 4.1</b> - Ministry of Economic Development (former Ministry of Labour and Social Welfare).</p>
Implementing Agency(ies)	<p><b>Implementing Agency 1:</b> Ministry of Finance and Social Welfare – Directorate for Finance and Contracting of the EU Assistance Funds (CFCU);</p> <p><b>Implementing Agency 2:</b> Public Works Administration (PWA).</p>
End recipients of assistance	<b>For Activity 1.2:</b> <i>Local governments, social partners, non-governmental organisations, centres for social work, employers, educational institutions and training providers, Employment</i>

	<p><i>Agency of Montenegro - national and local level, regional development agencies, other relevant actors;</i></p> <p><b>For Activity 2.3:</b> <i>Ministry of Education, Science, Culture and Sports (former MoE), VET Centre, Bureau for Educational Services, Primary and secondary schools in Montenegro;</i></p> <p><b>For Activity 2.4:</b> <i>Ministry of Education, Science, Culture and Sports (former MoS), PhD holders/researchers, employers (business sector, scientific and research institutions and tertiary educational institutions) active in research and development (R&amp;D);</i></p> <p><b>For Activity 4.1:</b> <i>Ministry of Economic Development (former MLSW); Ministry of Education, Science, Culture and Sports (former MoE and MoS); Ministry of Justice, Human and Minority Rights (former MHMR); Ministry of Finance and Social Welfare (CFCU, DMS and part of former MLSW); Public Works Administration; potential and actual beneficiaries, media, general public.</i></p>
Operations/contracts	<p><b>Activity 1.2</b> - Service contract: Further Development of the Local Employment Initiatives in Montenegro (CFCU/MNE/085);</p> <p><b>Activity 2.3</b> - Service contract: Preparation of Main Design and Supervision of works for Adaptation of the school buildings for accessibility and movement of disable persons and persons with mobility difficulties, Montenegro (PWA/MNE/IPAI/SOPEES/SER/01-22/1);</p> <p><b>Activity 2.4</b> - Service contract: Technical Assistance to Grant Beneficiaries in Project Implementation (CFCU/MNE/089);</p> <p><b>Activity 2.4</b> - Grant contract: 3D Virtual Heritage (CFCU/MNE/130);</p> <p><b>Activity 4.1</b> - Supply contract: Equipping Operating Structure for SOPEES 2015-2017 Lot 1 - Computer and Accessories (ICT Equipment) (CFCU/MNE/087).</p>
Declared amount (total)	<p>Declared amount: <b>1.877.790,26 €</b></p> <p>Audited amount: <b>412.223,54 €</b> (21,95 % of declared amount)</p>
Reference year	<b>2021</b>

**Table 7**

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

Not applicable. This was the first Declaration of Expenditure and there were no negative items.

**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**

Detailed objective, scope and coverage of the audit of operations were determined at the commencement of the audit of operations, after obtaining all necessary information, i.e. total expenditure declared to the Commission as well as the operations and projects to which declared expenditure relate. Selecting the sample of operations for testing was performed according to the methodology defined by EC Guidance<sup>3</sup> on sampling methods for audit authorities and Manual of Procedures of AA. Sampling unit which was used for this Audit of operations is contract/project.

The Declaration of Expenditure (within the Request for Funds Instalment No.2) which the NAO/Deputy NAO submitted to EC on 29<sup>th</sup> March 2021 (Letter No.14-4525/1) was the first DoE regarding 2015-2017 SOPEES and it included 25 operations/contracts for which the expenditure were declared. Bearing in mind the size of population (25 units) and the fact that non-statistical sampling method may be used in any case where the number of operations for an accounting year is small and therefore insufficient to allow the use of a statistical method, we applied non-statistical sampling by random selection of items. In order to ensure randomness of the sample and its representativeness, we applied random sampling using specialized CAAT tool CaseWare IDEA.

The size of the sample must be determined taking into account the level of assurance provided by the system, and must be sufficient to enable the AA to draw a valid audit opinion on the legality and regularity of the expenditure. The level of assurance of the management and control system for 2015-2017 SOPEES is “Work. Some improvement(s) needed”. However, in order to ensure a sufficient size of the sample enabling the AA to draw up a valid audit opinion, we increased number of selected operations (and consequently the value of declared expenditure) above indicative thresholds defined by EC Guidance on sampling methods for audit authorities.

The population consisted of 25 units (contracts) and amounting 1.877.790,26 EUR in total. For this audit we selected sample of 5 operations in overall amount of 412.223,54 EUR which represents 20,00 % of the total number of units/operations (population) and 21,95 % of total amount of declared costs.

For the selected sample we audited 100% of declared expenditure.

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<sup>3</sup> EGESIF\_16-0014-01 of 20 January 2017 – Guidance on sampling methods for Audit Authorities, Programming periods 2007-2013 and 2014-2020

- 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)**

The Declaration for Expenditure (within the Request for Funds Instalment No.2) sent to EC on 29th March 2021 was actually the first DoE through which the NAO/Deputy NAO declared expenditure to the Commission for the 2015-2017 SOPEES. It was also the only DoE in 2021 and it included declared expenditure for 25 contracts/projects (sampling units) in the total amount of 1.877.790,26 EUR (EU contribution 1.572.127,78 EUR and IPA II Beneficiary or other third party contribution 305.662,48 EUR). We selected sample of 5 operations in overall amount of 412.223,54 EUR.

Eligible expenditure declared to the EC during 2021	Population size (No of sampling units in the population)	The amount of expenditure audited	The percentage of expenditure audited	Sample size (No of sampling units actually audited)	The percentage of sampling units audited	Amount of irregular expenditure in random sample
1.877.790,26	25	412.223,54	21,95%	5	20,00%	0,00

**Table 8**

Details about operations (random units) we have selected, are given in in the table below:

Action/ Activity/ Operation	Total expenditure declared (EUR)	Union contribution (EUR)	IPA II beneficiary or other third party contribution (EUR)	Expenditure audited (EUR)	Audited / Declared expenditure (%)
Action 1 Activity 1.2 <u>Operation</u> M1.0.1.02.01.C01 (Service contract) CFCU/MNE/085	191.406,86 <sup>4</sup>	162.695,83	28.711,03	191.406,86	100%
Action 2 Activity 2.3 <u>Operation</u> M1.2.2.3.01.D01 (Service contract) PWA/MNE/IPAII/S OPEES/SER/01-22/1	25.699,10	21.844,24	3.854,86	25.699,10	100%

<sup>4</sup> This amount includes the first and second interim payment and related costs

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Action 2 Activity 2.4 <u>Operation</u> M1.0.2.04.01.C01 (Service contract) CFCU/MNE/089	54.172,54 <sup>5</sup>	46.046,66	8.125,88	54.172,54	100%
Action 2 Activity 2.4 <u>Operation</u> M1.0.2.04.02.C03 (Grant contract) CFCU/MNE/130	50.960,04	38.567,42	12.392,62 (Nat 6.806,02+ 5.586,60 private)	50.960,04	100%
Action 4 Activity 4.1 <u>Operation</u> M1.0.4.01.01.C01 (Supply Contract) CFCU/MNE/087	89.985,00 <sup>6</sup>	76.487,25	13.497,75	89.985,00	100%
<b>Total</b>	<b>412.223,54</b>	<b>345.641,40</b>	<b>66.582,14</b>	<b>412.223,54</b>	<b>100%</b>

**Table 9**

**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**

During the audit, we have identified and documented audit findings for which action should be taken to ensure full compliance, but have no financial consequences - System findings. Findings which have financial impact (transaction findings) have not been identified within selected sample, i.e. there was no ineligible expenditure.

**Finding No: 1**

**Body/-ies concerned by the finding:** DMS/NFD and PWA (IA)

**Audit area:**

Data presented into Declaration of Expenditure within the Request for Funds Instalment No.2

**Finding: *Inconsistency between the data presented into the Declaration of Expenditure and accounting records in PWA (IA) (with cut-off date 28<sup>th</sup> February 2021)***

According to the Framework Agreement between the Government of Montenegro and the European Commission on the arrangements for implementation of Union financial assistance to Montenegro under the Instrument for Pre-accession assistance (IPA II), Annex A, Clause 2 (3):

<sup>5</sup> This amount includes the first and second interim payment and related costs

<sup>6</sup> This amount includes the pre-financing (cleared pre-financing) and final payment, i.e. total costs

*“For the purpose of paragraph 2(a), the NAO, supported by the National Fund, shall in particular fulfil the following tasks:*

*(a) draw up and submit to the Commission statements of expenditure detailing:*

*(i) incurred and paid costs;*

*(ii) and where applicable, include information on pre-financing in the payment requests, and certify that these result from reliable accrual based accounting systems as established in compliance with point (b), are accurate and based on verifiable supporting documents, and have been subject to verifications by the operating structures and by the management structure. At the closure of a programme, the NAO shall provide a final statement of expenditure;*

*b) ensure that there is an accrual based accounting system which records and stores, in computerised form, accounting records for each action/activity/operation and which supports all the data required for drawing up payment requests and annual financial reports or statements. Such system shall provide accurate, complete and reliable information in a timely manner and shall also include records of amounts recoverable, amounts recovered and amounts withdrawn following cancellation of all or part of the IPA II assistance for a programme or action.”*

According to the Financing Agreement between the Government of the Montenegro and the Commission of the European Communities concerning the 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies, Annex II *General conditions*, Article 5 (5):

*„Cost recognised in the accounting system maintained under the section 4 of this Article must have been incurred, paid and accepted and correspond to actual costs proven by supporting documents and shall be used when appropriate to clear pre-financing paid by the IPA II beneficiary under local contracts.“*

By analysing and comparing data from the Declaration of Expenditure and accounting records of Implementing Agencies, we determined that Deputy NAO issued DoE with cut-off date on 28<sup>th</sup> February 2021 and within it declared the amount of cost recognised by the IAs as follows:

<b>IA</b>	<b>EU contribution</b>	<b>IPA II beneficiary or other third party contribution</b>	<b>Total contribution</b>
CFCU	1.537.618,54	299.572,61	1.837.191,16
PWA	34.509,24	6.089,87	40.599,10
<b>Total</b>	<b>1.572.127,78</b>	<b>305.662,48</b>	<b>1.877.790,26</b>

**Table 10**

We noticed the following comment below the table in the DoE: *“Under amount paid and cost recognised amount of one payment of PWA is included (8.940,00 €), for which transfer of EU funds is done in February, while payment to the contractor is done at the beginning of March. Eventhough cut-off date of RfFs is 28/02, in order to be consistent with bank balance on IPA account, amount of EU funds which is transferred to PWA in February and for which payment is done in March is presented in the RfFs as cost recognised/amount paid.”*

Examining the operations/contracts for which costs have been declared in DoE as “cost recognised”, we determined that the amount of costs in accounting system of PWA (IA) on 28<sup>th</sup> February 2021 (cut-off date for DoE) does not match the amount of costs recognised which were declared in DoE. Namely, the amount of costs entered into the accounting system of PWA (account 4147) until 28/02/2021 was 25.699,10 EUR (EU contribution 21.844,24 + 3.854,87 national contribution) which is different from the data declared in DoE (amounts presented in the previous table). This difference in amount of 14.900,00 EUR is related to costs/payments for one

service contract (global price). Namely, the amount of 5.960,00 EUR (which was pre-financing paid in October 2020) was entered into accounting system of PWA as cost (account 4147) on 3<sup>rd</sup> March 2021 while the amount of 8.940,00 EUR (which was final payment) was entered into accounting system as a cost on 9<sup>th</sup> March 2021 (date of payment execution).

By further analysing the supporting documents related to this contract, we found that costs have been actually accepted by PWA during the February 2021 when IA received the Read & Approved Visa from PIU, performed appropriate controls for final payment, approved the invoiced amount by issuing and signing the relevant checklist and sent the Request for Funds to DMS/NFD. Also, we confirmed that transfer of EU part from IPA account to PWA was done in February. However, PWA did not enter this amount in the accounting system as cost until it was paid from their side (09/03). This does not correspond with principles of accrual-based accounting system and also is not in line with prescribed accounting procedures in MoP (V 2.0), i.e. time/moment of entering costs into the accounting system. Also, it should be noticed that at the moment of submission of the Declaration of Expenditure (within the Request for Funds Instalment No.2) to the European Commission (on 29<sup>th</sup> March 2021) all costs declared as recognised have been actually incurred, paid and accepted and corresponded to actual costs proven by supporting documents but in relation to the cut-off date which was set-up regarding this DoE, these costs did not satisfy all mentioned conditions.

**Conclusion (including Financial consequences, if applicable):**

Previously mentioned omissions led to the situation that data from Declaration of Expenditure is not consistent, i.e. does not match in full with data from accounting system/records from IAs (in this case data related to costs for operations/contracts for which PWA is IA) at the same date (cut-off date). The amount of costs recognized for certain period which are declared in the declaration for expenditure must be equal to the amount of costs entered into accounting system of IAs for that period of time, i.e. costs which have been incurred, paid and accepted and correspond to actual costs proven by supporting documents.

On the other side, IAs should manage their accounting records and system in line with provisions of FWA, FA and prescribed procedures in order to satisfy the principle of accrual-based accounting system and provide the DMS/NFD with accurate, reliable and timely data.

**Recommendation:**

We recommend to NAO (DMS/NFD) to pay attention during the process of preparation of the next declaration of expenditure and to declare as recognized costs exclusively and only the costs that have been incurred, paid and accepted by IAs and correspond to actual costs proven by supporting documents until the cut-off date of declaration, i.e. exclusively and only the costs from accounting system/records of IAs for the period for which declaration of expenditure is to be issued.

We recommend to PWA (IA) to manage its accounting system and records in line with provisions of FWA, FA and prescribed procedures in order to satisfy the principle of accrual-based accounting system and provide the DMS/NFD with accurate, reliable and timely data.

**Level of importance:** Intermediate

**Implementation deadline:** submission of next Declaration of Expenditure

**Management response:**

**PWA reply:** Costs are recognized when they are paid, meaning that in regard to service contract date March 3rd 2021 is the date of cost recognition of total amount (14,900.00 €), i.e. date of final payment under the contract. It should be noted that all steps in regard to this specific contract (from invoices, RfFs, notification letters, etc.) are entered/recorded in SAP timely and in accordance with the procedures (attached is SAP export with marked records (in red and blue).

*Evidence-1 SAP export PWA SOPEES (excel)*

Invoice for advance payment is not recorded as costs at the moment of advance payment, bearing in mind that account 4147 (expenditures for services) is related to the costs. In March 2021, both, advance and final payment s are recorded on account 4147. However, technical error occurred and advance payment was recorded as cost on March 9th 2021 instead of March 3rd 2021.

**DMS reply:** Respecting provisions of relevant legal documents and taking into account that understanding of specific provisions related to the costs recognized were subject of reconciliation with EC, at the moment of preparation and submission of RfFs under SOPEES programme there were no official reply by the EC. Respecting that, during process of preparation of relevant RfFs, NAO/DMS noted abovementioned specificities in regard to the costs which are accepted, but not yet paid (regarding service contract under PWA responsibility) and EC taken into account those notes. Namely, approval of submitted RfFs is received by the EC with no comments and/or suspension of submitted request and funds are paid to the relevant IPA account.

As explained above, cost is recorded by PWA in March 2021, however, note under submitted RfFs by the NAO/DMS cover this specific situation.

**Final conclusion:**

Considering PWA's response, we would like to emphasize the basics of accrual-based accounting:

According to the International Public Sector Accounting Standards: *“Accrual basis means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue, and expenses.”* Also, according to the EU Accounting Rule 3: *“Under the accrual basis of accounting, the European Union should apply a basis of accounting under which transactions and other events are recognised when they occur and not only when cash or its equivalent is received or paid or when the invoice is received. Generally, under accrual accounting, the generating event is the service performed (delivery acceptance) or the supplies delivered (delivery note).”*

Additionally, we would like to refer PWA (IA) to their own Manual of Procedures, Chapter Accounting, section 9, in order to check the main accounting entries regarding the approval of reports and expenditures, i.e. approval of payment requests/invoices.

When it comes to DMS' reply, we hope that, after the official reply by the EC, specific provisions related to the costs recognized are now clear.

We maintain our opinion and finding and recommendations remain. We will monitor the implementation.

<b>Finding No: 2</b>	<b>Operation:</b> M1.2.2.3.01.D01 - Service Contract
<b>Body/-ies concerned by the finding:</b>	Public Works Administration (IA)
<b>Project name and number:</b> Preparation of Main Design and Supervision of works for Adaptation of the school buildings for accessibility and movement of disable persons and persons with mobility difficulties, Montenegro	
<b>No. PWA/MNE/IPAI/SOPEES/SER/01-22/1</b>	
<b>Total amount claimed:</b> 25.699,10 €	<b>Amount audited:</b> 25.699,10 € (100% of the total amount claimed for the operation)
<b>EC contribution:</b> 21.844,24 €	
<b>National contribution:</b> 3.854,87 €	
<b>Finding: <i>Violation of rules and procedure for publication of corrigendum to the tender dossier</i></b>	
According to the PRAG (Version 2019.0), Section 3.4.1.2. Publication of contract notices: „If the contracting authority, either on its own initiative or in response to a request for clarification from a tenderer, amends information in the contract notice, it must send a corrigendum using the appropriate template (Annex A5b) and complying with the deadlines set up in the publication guidelines (see Annex A11e) to the relevant services of the European Commission for publication. The corrigendum must be published not later than 5 days before the original submission deadline. Be aware that the corrigendum has to be sent to the relevant service of the European Commission not later than 10 days before the expected date for its publication.”	
Also, according to the Annex a11e_publication_guidelines_en.docx to PRAG: “Time limits depending on the submission deadline: For service contracts: Corrigenda and clarifications should be published at the latest 5 days before the deadline to allow candidates to take changes into account and must therefore not be published after the deadline, even if the corrigendum postpones this deadline.”	
By reviewing and analysing documentation related to tender for "Preparation of Main Design and Supervision of works for Adaptation of the school buildings for accessibility and movement of disable persons and persons with mobility difficulties, Montenegro", publication reference PWA/MNE/IPAI/SER/01-3268/1, we determined the following deficiency:	
<ul style="list-style-type: none"> <li>- the Corrigendum no1 to the tender dossier was not issued and published in line with provisions of PRAG, section 3.4.1.2 and Annex a11e. Namely, according to the Service Contract Notice, point 18, and Instructions to tenderers, point 8, „Tenders must be sent to the contracting authority before 24.09.2019 at 15:00 hrs “. On 19th September 2019 (TN Ares(2019)5874825) the IA (PWA) sent to the DEU the proposal of Corrigendum No. 1 to the Tender dossier (with relevant Explanatory note) on approval. This Corrigendum was approved by DEU on 20th September 2019 (TN Ares(2019)5885053). The purpose of issuing corrigendum was to prolong the deadline for submitting tenders (from originally set up date 24th September 2019 to 1st October 2019). According to the reviewed documents, we found that Corrigendum No. 1 to the Tender dossier was published, i.e. sent to the tenderers (in this case simplified procedure was applied) on 23th September 2019 which is just one day before the original submission deadline.</li> </ul>	
Bearing in mind the aforementioned provisions of PRAG and the fact that original deadline for	

submitting tenders was 24th September 2019, it is evident that relevant rules which are related to the publication of corrigendum were not respected in this case.

**Conclusion (including Financial consequences, if applicable):**

Violation of any rules and procedures within the procurement process can cause suspicion and loss of reputation, possible lawsuits that can slow down or completely stop the contracting and implementation process. In order to prevent this, it is necessary respecting all the rules and provisions of relevant regulations.

**Recommendation:**

We recommend improving controls within the tendering and evaluation process in order to ensure timely implementation of the whole procedure with respecting all the rules and provisions of relevant regulations.

**Level of importance:** Intermediate

**Implementation deadline:** II Q 2022

**Management response:**

**PWA reply:** Due to late notification by potential tenderers that they cannot arrive to prepare tender offers within the given deadline, PWA implemented the Corrigendum procedure no.1.

Reasons for asking for the deadline extension were the following:

- Having in mind the experience with tender procedures for projects that are implementing in Bijelo Polje (and which have similar tender documentation as this project) that have been unsuccessful and cancelled two times;
- One of the invited companies has requested the extension of deadline for the submission of tenders, in order to have more time for completion of the documentation, which is acceptable bearing in mind the volume and complexity of the project, and which indicated that there was not enough time for preparing the tender offers.

PWA certainly follows the rules and procedures of relevant regulations, so the mentioned delay was not initiated directly from the PWA.

**Final conclusion:**

Regardless the reasons given by the auditee, we would like to stress that applicable and relevant rules shall be fully respected.

We maintain our opinion and finding and recommendation remains. The implementation will be monitored.

**Finding No:** 3

**Operation:** M1.0.4.01.01.C01 - Supply Contract

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

CFCU (IA), MED (PIU), MESCS (PIU), MJHMR (PIU)

**Project name and number:**

Equipping Operating Structure for SOPEES 2015-2017

Lot 1 - Computer and Accessories (ICT Equipment)

**No. CFCU/MNE/087**

<b>Total amount claimed:</b> 89.985,00 €	<b>Amount audited:</b> 89.985,00 € (100% of the total amount claimed for the operation)
<b>EC contribution:</b> 76.487,25 €	
<b>National contribution:</b> 13.497,75 €	

**Finding: *Inappropriate issuing of provisional acceptance certificate***

According to the Supply Contract for European Union external actions No CFCU/MNE/087, Special Conditions Article 25.2: “The inspection and testing prior to the provisional acceptance will take place at the locations where equipment is delivered, installed and put into operation.”

Article 31 of Special conditions stipulates, inter alia, the following: “The supplies shall be taken over by Contracting Authority when they have been delivered in accordance with the Contract, have satisfactorily passed the required tests, and a certificate of provisional acceptance has been issued or is deemed to have been issued.”

By reviewing and analysing documentation related to this supply contract, we determined that ICT equipment had been taken over by CA and Beneficiary Institution/PIU (MED-former MLSW) and Provisional Acceptance Certificate (PAC) had been issued prior then the all delivered equipment has been installed, put into operation and satisfactorily passed the required tests. Based on the Provisional Acceptance Certificate, date of acceptance 22.11.2019, significant portion of supplied equipment have not been even unpacked. According to the remarks from PAC and OTS verification report, the following equipment had not been unpacked at the moment of performing OTS: 5 PCs, 4 notebook computers, 1 video projector and projection screen, 3 MF printers, 3 NAS devices, 1 photo camera, 1 TV, 1 binding machine, 1 INKJET A3 printer and 3 external hard drives (total value of this equipment is 13.920,00 EUR which presents around 15% of total purchase). Although previously mentioned equipment was not even unpacked, the PAC was issued and into it was noted the following: „All of the above-mentioned items have been delivered, installed, tested and found compliant with the technical specifications of the supply contract “. Obviously, the Articles 25.2 and 31 of the Special Conditions were not respected in this case, i.e. not all equipment have been installed, tested and put into operation prior to the provisional acceptance.

Analysing the Final Acceptance Certificate, which was issued in December 2020, and related OTS verification checklist, we found that even then (one year later) some equipment (1 PC, 1 Notebook, 1 printer, 1 NAS) has still not been unpacked and was not in use.

Additionally, during the performance of audit activities and controls (December 2021), we determined that some of the supplied equipment is not used by the OS staff. For example, NAS devices which were supplied for PIU in MESCS (former PIUs in the Ministry of Education and Ministry of Science) are not used by this PIU. Also, equipment which was supplied for PIU MJHMR (former Ministry of Human and Minority Rights) now is not used by this PIU.

Bearing in mind the originally purpose of the contract as well as its title “Equipping the Operating Structure for Employment, Education and Social Policies Sector” and the fact that a part of supplied equipment is not used by the OS for SOPEES, the sustainability of this supply contract is questionable.

**Conclusion (including Financial consequences, if applicable):**

By non-respecting the provisions of Special conditions related to inspection and testing of all

supplied equipment as well as to issuing the provisional acceptance, the CA has undertaken the potential risk that the received equipment is not working properly and cannot be put into operation.

Taking into account that some equipment was not unpacked even one year after the purchase, we are inclined to conclude that the requirement to purchase equipment was not done in accordance with actual needs of the Operating Structure. Additionally, considering that certain equipment is not used by OS staff, the sustainability of this supply contract is questionable and consequently the justification of related costs.

**Recommendation:**

We recommend improving controls in order to ensure proper and effective implementation of the whole procedure regarding the provisional acceptance of supplied equipment with respecting all the rules and provisions of signed contracts and relevant regulations. CA and PIU should provide conditions that all delivered equipment be installed, properly tested and put into operation prior to the provisional acceptance.

We recommend that all supplied equipment to be used for the purpose which was originally set up, i.e. to be used by IPA II bodies constituting Operating Structure for Employment, Education and Social Policies Sector. Otherwise, the sustainability of this supply contract is questionable and consequently costs related to this equipment.

**Level of importance:** Intermediate

**Implementation deadline:** II Q 2022

**Management response:**

**CFCU reply:** Recommendation accepted.

**PIU MED reply:** The former PIU MLSW took over all the necessary ICT equipment that was planned for it within the supply contract “Equipping Operating Structure for SOPEES 2015-2017“ – CFCU/MNE/087. Also, all necessary ICT equipment in the former PIU MLSW have been provided, delivered, installed and used from the signing of the contract to the abolition of the Ministry of Labour and Social Welfare.

As it is known, the new Government of Montenegro was established on 4th December 2020 and new Decree on the organization and manner of work of the state administration was adopted on 7th December 2020. Furthermore, the mentioned Decree has significantly changed the organization of the entire state administration and especially the organization of the MLSW which has lost the legal entity status, so, one part of MLSW related to the employment policy belonged to the Ministry of Economic Development and the other one related to the social policy to the Ministry of Finance and Social Welfare. Related to this, the composition of the OS for SOPEES has also been changed significantly. So, the former MLSW PIU staff were deployed in both mentioned ministries and one small part of these ICT equipment: 2 PCs and 2 notebooks have been taken over by the MFSW PIU, since two employees of the former MLSW PIU were deployed in this PIU. The remaining part of the ICT equipment belonged to the MED PIU and it is fully in use.

Bearing in mind the originally purpose of the supply contract and the fact that a part of supplied equipment is not used by the OS for SOPEES and that some equipment was not unpacked even one year after the purchase, the MED PIU as one of the beneficiary institution of this contract

will initiate to make an additional needs analysis for the ICT equipment within the OS and suggest to the OS that not used equipment be given to the IPA body or bodies constituting the OS for SOPEES that needs it most. In this way, all supplied equipment would be adequately used and in acc. with originally planned purpose.

**PIU MJHMR reply:** Due to the Structural changes in 2020 Ministry of Human and Minority Rights and Ministry of Justice were “merged” in one Ministry – Ministry of Justice, Human and Minority Rights (MJHMR).

Equipment received under the SOPEES project was in the PIU of previous Ministry of Human and Minority Rights (Department of European integration, Programming and Implementing EU funds). In that PIU (in accordance with Systematization Act) were 4 employees’ position, but only three persons were working (Head of Department – SPO, Programming Manager and Implementing Manager). For all three employee’s equipment has been installed, and it was in use. Since there was not fourth employee in the PIU – equipment was not opened. During 2021, three persons working previously in above mentioned PIU, were appointed to the other positions (not in the PIU of the new Ministry of Justice, Human and Minority Rights). One of the persons (even not been appointed to the position in PIU), is still working and following activities under the SOPEES programme, and in line with that using the relevant equipment. In the current PIU of the Ministry of Justice, Human and Minority Rights, there are four employees who were working in the previous Ministry of Justice. They have their own equipment from previous period, and there were not newly employed persons. In line with the plan to strengthen capacities of the current PIU of the MJHMR, equipment (received under SOPEES project) will be in use in 2022.

**PIU MESCS reply:** Recommendation accepted. Equipment has not been installed and used respecting the fact that employees perform work processes in the premises that are no recognised as long-lasting solution, waiting for transfer into another location where equipment will be set and operational.

**Final conclusion:**

We are aware of changes that happened within OS for SOPEES due to new Decree on the organization and manner of work of the state administration. Taking into account these organizational changes we issued recommendation and conclusion in the manner of giving some more time to resolve the issue regarding usage of purchased equipment and the sustainability of this supply contract.

We maintain our opinion and finding and recommendations remain. We will monitor the implementation.

**Finding No: 4**

**Operation:** M1.0.4.01.01.C01 - Supply Contract

**Body/-ies concerned by the finding:** CFCU (IA), NFD

**Project name and number:**

Equipping Operating Structure for SOPEES 2015-2017  
Lot 1 - Computer and Accessories (ICT Equipment)

**No. CFCU/MNE/087**

**Total amount claimed:** 89.985,00 €      **Amount audited:** 89.985,00 € (100% of the total amount claimed for the operation)  
**EC contribution:** 76.487,25 €  
**National contribution:** 13.497,75 €      **Ineligible expenditure:** ~~1.020,00 € (1,13% audited)~~

**Finding: Balance payment executed in amount different from the value of equipment for which Provisional Acceptance Certificate has been issued**

According to the Article 1 of Supply Contract for European Union external actions No CFCU/MNE/087, which was signed on 7<sup>th</sup> August 2019,

“The subject of the contract shall be the supply, delivery, unloading, installation and after-sales service (for the relevant items) by the Contractor of the following supplies:

LOT 1 – Computers and Accessories (ICT Equipment):

Item	Description	Quantity
1.	PERSONAL COMPUTER (PC)	37
2.	MONITOR TYPE 1 – same brand as PC	13
3.	MONITOR TYPE 2 – same brand as PC	24
4.	NOTEBOOK COMPUTER (PC)	21
5.	MFP LASER WITH ADF	15
6.	VIDEO PROJECTOR	2
7.	PROJECTION SCREEN	2
8.	MFP LASER WITH ADF, STAPLE AND PUNCH FINISHER	1
9.	NETWORK ATTACHED STORAGE (NAS)	6
10.	RECK MONTABLE SERVER	1
11.	DUPLEX DOCUMENT SCANNER DEVICE	5
12.	TABLET	3
13.	PHOTO CAMERA	2
14.	FLAT TV TYPE 1	3
15.	FLAT TV TYPE 2	2
16.	EXTERNAL HARD DRIVE	3
17.	CORDLESS PHONE	4
18.	INKJET A3 + Printer	2
19.	BINDING MACHINE A4	1
20.	PAPER SHREDDER	1

**Table 11**

Article 3 of this Supply Contract stipulates the following:

“3.1 The price of the supplies shall be that shown on the financial offer (specimen in Annex IV). The total maximum contract price shall be EUR 89.985,00.

3.2 Payments shall be made in accordance with the general and/or special conditions (Articles 26 to 28).”

Article 26.5 of Special Conditions prescribe the following:

“In order to obtain payments, the contractor must forward to the authority referred to in paragraph 26.1 above:

- a) for the 40% pre-financing, by derogation from article 26.5 of the general conditions no pre-financing guarantee is required.
- b) for the 60% balance, the invoice(s) together with the request for provisional acceptance of the supplies.”

Annex I - General Conditions, Article 26.6, prescribes the following:

“Where only part of the supplies has been delivered, the 60% payment due following partial provisional acceptance shall be calculated on the value of the supplies which have actually been accepted and the security shall be released accordingly.”

Previously mentioned provisions related to the balance payments for supply contracts are properly defined in IPA II Manual of Procedures (V 2.0), Chapter Financial Management. It is prescribed that, inter alia, balance payment of 60% of the supply contract price should be made following provisional acceptance of the supplies.

Based on documentation obtained and audit activities performed related to confirming the legality and regularity of expenditure within this operation/contract, we determined that balance payment was not executed in line with the provisional acceptance of the delivered supplies.

We found that pre-financing payment was made in line with provisions of this supply contract in amount 35.994,00 EUR which is 40% of the total price of the contract. After issuing the Provisional Acceptance Certificate, IA executed balance payment of 60% of the contract price, i.e. paid 53.991,00 EUR. However, we found that balance payment was not executed in appropriate amount.

Reviewing the documentation related to balance payment, we determined that Provisional Acceptance Certificate, date of acceptance 22<sup>nd</sup> November 2019, is not fully consistent with provisions of this Supply Contract. Namely, according to the Article 1 the subject of this contract was supply, delivery, unloading, installation of 20 items of various ICT Equipment. However, Provisional Acceptance Certificate was issued for 19 items in total and it was signed by Contractor, Contracting Authority and Beneficiary Institution. Comparing items which were contracted with items for which Provisional Acceptance Certificate was issued, we determined that item no 20 from Article 1 of the Contract is missing. Moreover, we determined that the Final Acceptance Certificate was issued in December 2020 and also for 19 items.

Analysing the contract and it's all relevant annexes, we determined that the total value of items for which Provisional Acceptance Certificate was issued is 88.965,00 EUR. In accordance with this and considering that pre-financing was made in amount of 35.994,00 EUR, the balance payment should be in the amount 52.971,00 EUR. Also, we would like to emphasize that controls related to balance payment were not appropriate nor in the CFCU, neither in the NFD. The invoiced amount was not consistent with the value of ICT equipment for which Provisional Acceptance Certificate was issued. The checklist for balance payment was not properly filled in bearing in mind that nobody from the internal control system figured out the fact that data from Provisional Acceptance Certificate is not in line with the contractual stipulations. Accordingly, balance payment was not made in line with total value of items from Provisional Acceptance Certificate.

~~Bearing in mind aforementioned provisions of Contract, Special and General Conditions as well as the difference between the total payments (89.985,00 EUR) which CFCU made to Contractor and the total value of ICT equipment for which Provisional Acceptance Certificate was issued (88.965,00 EUR), the amount of 1.020,00 EUR is ineligible.~~

**Conclusion (including Financial consequences, if applicable):**

The total amount of payments made regarding Supply contract CFCU/MNE/087 is greater than it should be according to the value of equipment for which Provisional Acceptance Certificate was issued. ~~Therefore, the amount of 1.020,00 € is considered ineligible.~~

**Recommendation:**

~~The expenditure in the overall amount of 1.020,00 € (EU contribution 867,00 EUR + national contribution 153,00 EUR) is considered ineligible for being financed from the Programme and should be recovered.~~

We recommend improving internal controls within the payment process in order to ensure that all payments are correct and made in accordance with relevant supporting documents. Established controls should be real and effective, not just formal.

**Level of importance:** ~~Major~~ Intermediate

**Implementation deadline:** ~~15<sup>th</sup> February 2022~~ II Q 2022

**Management response:**

**CFCU reply:** Recommendation is not accepted due to the fact that the finding does not reflect the situation in reality.

The item no 20 from Article 1 of the Contract was missing from the Provisional/Final Acceptance Certificate merely due to the technical omission during preparation of these two documents and unfortunately, this was not notified during internal cross-check of the documentation.

However, the item no 20 was delivered according to the contractual obligations at the time of delivery no. 1, installed, put in function and since that day it is being used in CFCU's everyday functioning. Additionally, this item was included in the Delivery Request submitted by the Contractor, Delivery Order issued by the CFCU and its receipt was appropriately confirmed by the CFCU in the dispatch list, signed by the CFCU and the Contractor's representatives. Relevant supporting documentation is attached below.

*E-2 Delivery request no.1*

*E-3 Delivery order no.1*

*E-4 Delivery note no.1*

In addition, as can be concluded from the pictures attached below, item 20 is located in the CFCU premises, while the model corresponds to the model specified in the dispatch list, signed by the CFCU and the Contractor's representatives on 03.10.2019 (Paper Shredder FELLOWES 550C, serial number 550C 180105 A A 0001629; CRC 49631).

*E-5 Item 20\_pictures*

**DMS reply:** As explained above, technical omission occurred in Provisional/Final Acceptance certificates, however, the item from technical specification is delivered, installed and in function. Bearing that in mind, there are no non-eligible costs under the contract CFCU/MNE/087, meaning that total contracted amount under contract CFCU/MNE/087 was 89,985.00 €, out of which advance payment is executed in the amount of 35,994.00 € (which represent 40% of total contracted amount) and 60% of contracted price, i.e. amount of 53,991.00 € represent amount of final payment that is executed under the contract.

**Final conclusion:**

According to the auditee's explanation, proofs enclosed within the response on Draft report and checks conducted, we found evidences relevant and concluded that Item No.20 (Paper Shredder FELLOWES 550C, serial number 550C 180105 A A 0001629; CRC 49631) was purchased within this supply contract and delivered to beneficiary institution. Taking this into account, we withdraw the part of finding and recommendation related to ineligible expenditure.

The second part of this finding and recommendation remains and we will monitor the implementation. We change the level of importance to "intermediate" and set up new deadline.

**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. Within the audited sample we did not identify findings which have a financial impact (transaction findings), i.e. ineligible expenditure have not been detected.

**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. See Section 5.9.

**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. There was no any problem identified to be systemic in nature.

**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**

The conclusions of the audit are based on the information and documents gathered during the audit from beneficiaries and MCSS bodies, interviews conducted in the audited bodies and tests performed following the working papers and checklists for specific audit areas.

Based on the audit work performed we have obtained reasonable assurance that the expenditure declared in the amount of 1.877.790,26 EUR in the in the period 01/01/2021 – 31/12/2021 (through Declaration of Expenditure within the Request for Funds Instalment No.2, with cut-off date on 28th February 2021), is in all material aspects, legal and regular, with drawing the attention to issues described in findings no 1, 2, 3 and 4 Section 5.8 of this Report.

On the basis of result of the audit of operations/transactions and considering that no irregular expenditure was identified, the Audit Authority concluded that assessment of MCSS given during the system audit, which is in Category 2 ('works, but improvements are needed'), shall remain the same.

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

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

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

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

Audit of accounts has been carried out in compliance with the Audit Authority Manual of procedures, Programme Audit Strategy 2022-2024, Framework Agreement and relevant Financing Agreement.

In the context of the Audit of accounts, and for the purposes of issuing the Audit opinion, in order to reach a conclusion on the completeness, accuracy and veracity of the annual financial reports or statements, the Audit Authority verifies whether all accounting information presented in the Annual financial report or statements/annual accounts which are submitted to the Commission is prepared, in all material respects, in accordance with the applicable Financial reporting framework.

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

In line with Article 59(2) of the Framework Agreement concluded between the Government of Montenegro and the European Commission on the arrangements for implementation of Union financial assistance to Montenegro under the Instrument for Pre-accession assistance (IPA II), NAO submitted Annual Financial Reports for 2021 to EC on 15<sup>th</sup> February 2022.

This audit of accounts covered Annual Financial Report for 2021 for the 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies.

The summarized data regarding the total amounts contracted, decommitted, disbursed, recognized and open pre-financing as well as recoveries and bank balance, which are submitted in the previously mentioned AFR for 2021, is presented in the table below:

Financial/accounting year: 2021

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

Financing Agreement CRIS No 2015/037-895

**Programme Budget:**

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

Local Contract Activities													Recovery context	Bank Balances (EU contrib)
Total Amount Contracted			Total Amount Committed on closure	Total Amount Disbursed			Total Costs Recognized			Total Open Pre-financing				
4			6	8			10			12			17	18
EU contribution	National contribution	Other sources	Total	EU contribution	National contrib.	Other sources	EU contribution	National contrib.	Other sources	EU contribution	National contrib.	Other sources	No context	Total
14.730.342,11	2.599.472,11	1.125.018,05	0,00	10.436.435,15	1.841.723,87	0,00	5.958.828,29	1.051.557,92	400.146,97	4.477.606,86	790.165,95	0,00	2.166,68	3.149.963,10

Table 12

The Audit Authority, on the basis of the Annual Financial Report as well as all required documentation provided to it by the NF and IAs (CFCU and PWA) verifies whether:

- the total amounts submitted in the Annual Financial Report (contracted and addendums signed, amounts disbursed, total costs recognised, amounts of open pre-financing, invoices received, payments made and recoveries requested, 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 NF and IAs;
- the total amounts submitted in the Annual Financial Report correspond to the amounts in the electronic database for each contract;
- the bank accounts statement for each programme balances corresponds to the year-end balances in the accounting systems of the National Fund Division (NF);
- Reconciliation of the accounting records and cash flow statements of the NF and Implementing Agencies;
- Total amounts of recoveries correspond to supporting documents for recoveries.

In order to achieve the overall objective, the Audit Authority took into account the results from the System audits carried out in National Fund Division (NF) and Implementing Agencies (CFCU and PWA) in the previous period regarding effective and efficient functioning of the management, control and supervision system (MCSS) in the process of preparing and submitting of the Annual Financial Report (AFR).

Also, we took into account the results from the Audit of operations/transactions conducted on expenditure which NAO/Deputy NAO declared to the EC on 29<sup>th</sup> March 2021 through the Declaration of Expenditure within the Request for Funds Instalment No.2 (interim) with the aim to confirm the legality and regularity of declared expenditures.

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. The AA also checked whether the accounts have been prepared in accordance with the templates set out in Annex IV of Financing Agreement. Audit verifications on the amounts were carried out on the following evidence: Year-end cut-off reports, Requests for Funds from IAs, Liquidity book, Bank statements, Bridge financing documents and Transfer orders, accounting records in the General Ledgers, Financial reports of NF and IAs for 2021, Register of recoveries and supporting documents, Financial forecasts and Forecast of likely payment requests, Payment book of IAs.

Additionally, we performed relevant checks related to payment procedures and also went through procedures for costs recognition to check whether costs have been incurred, paid and accepted and correspond to actual costs proven by supporting documents. Selecting the sample for testing was performed according to the methodology defined by EC Guidance on sampling methods for audit authorities and Manual of Procedures of AA. We decided to increase audited sample and took around 30% of total number of payments made and 30% of total number of financial reports on the basis which costs were recognised. In total, forty-nine payments had been executed by IAs (CFCU and PWA) during 2021 out of which 13 pre-financings, 16 further pre-financings, 12 interim and 8 final payments. We performed checks on 15 payments out of which 7 pre-financings/further pre-financings, 5 interim payments and 3 final payments. Costs recognised had been checked in the sense that the whole procedure and rules were respected and that all relevant supporting documents exist. During 2021 IAs issued written approvals and recognised costs regarding 54 submitted reports out of which 16 written approvals for service contracts (for 9 service contracts: 11 WAs for interim reports and 5 WAs for final reports), 37 WAs for grant contracts and one for direct award. For the purpose of this audit, we checked 17

of them out of which 8 WAs for service contracts, 8 related to grant contracts and one for direct award.

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

Analysing Annual Financial Report for 2021 for 2015-2017 SOPEES and comparing it with data which we obtained by checking and testing documents and accounting records in CFCU and PWA, we determined that the item 12. Total Open Pre-financing was incorrectly presented in AFR for 2021.

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

➤ ***Finding No 1: Incorrect amount of “Total Open Pre-financing”***

Annual Financial Report for 2021, item No. 12

*Level of Priority:* Intermediate

*Body/-ies concerned by the finding:* NAO/NF and CFCU (IA)

According to the Annual Financial Report for 2021 for 2015-2017 SOPEES, Total Amount Disbursed, Total Costs Recognised, Total Open Pre-financing and Recovery context were reported as follows:

Total Amount Disbursed:

- EU contribution: 10.436.435,15 EUR;
- National contribution: 1.841.723,87 EUR;
- Other sources: 0,00 EUR.

Total Costs Recognised:

- EU contribution: 5.958.828,29 EUR;
- National contribution: 1.051.557,92 EUR;
- Other sources: 400.146,97 EUR.

Total Open Pre-financing:

- EU contribution: 4.477.606,86 EUR;
- National contribution: 790.165,95 EUR;
- Other sources: 0,00 EUR.

Recovery context:

- Errors: 0,00 EUR;
- Irregularities: 0,00 EUR;
- Fraud: 0,00 EUR;
- No context: 2.166,68 EUR.

Based on documentation obtained, desk checks performed, on-the-spot checks and substantive tests in Implementing Agencies/Contracting Authorities, we determined that amounts reported in AFR for 2021 (item No 12) are not correctly presented.

During this audit engagement we performed checks of documentation and accounting records regarding, inter alia, the total amount disbursed (i.e. total pre-financings paid), total amounts recognised (i.e. amounts of cleared pre-financing) as well as amount of recoveries which were proceed in 2021. Analysing the relevant registers and documentation in IAs and NF as well as accounting records and analytical card from bank account, we made recalculation. The results are presented in the table below:

<b>IA / CA</b>	<b>Total Amount Disbursed EU contribution</b>	<b>Total Amount Disbursed National contribution</b>	<b>Total Costs Recognised EU contribution</b>	<b>Total Costs Recognised National contribution</b>	<b>Recovery EU contribution</b>	<b>Recovery National contribution</b>	<b>Total Open Pre-financing EU</b>	<b>Total Open Pre-financing National contribution</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7=1-3-5</b>	<b>8=2-4-6</b>
CFCU	10.391.063,93 <sup>7</sup>	1.833.717,19 <sup>8</sup>	5.924.319,05	1.045.468,06	1.841,68	325,00	4.464.903,20	787.924,13
PWA	45.371,22	8.006,68	34.509,24	6.089,86	0,00	0,00	10.861,98	1.916,82
<b>TOTAL</b>	<b>10.436.435,15</b>	<b>1.841.723,87</b>	<b>5.958.828,29</b>	<b>1.051.557,92</b>	<b>1.841,68</b>	<b>325,00</b>	<b>4.475.765,18</b>	<b>789.840,95</b>

*Table 13*

<sup>7</sup> Under disbursed amount-EU contribution, total payments made has been decreased for withdrawn funds (at the end of 2020 it was in amount of 1.497,96 € and at the end of 2021 it was in amount of 211.803,93 €). This specificity is related to direct grant contract (contract No. CFCU/MNE/086) and it's beneficiary Employment Agency of Montenegro. Namely, funds not spent by the end of fiscal year within the state budget are lost and due to that, for payments made under direct grant contract withdrawal of EU part of funds from state budget to relevant IPA account for SOPEES programme is done at the end of 2020 and 2021, in order to prevent loosing of funds within state budget. These funds may be transferred to grant beneficiary (EAM) again.

<sup>8</sup> Under disbursed amount-National contribution, total payments made has been decreased for withdrawn funds (at the end of 2020 it was in amount of 264,34 € and at the end of 2021 it was in amount of 37.377,16 €). Also, see previous explanation.

Based on data presented within the previous table, we calculated Total Open Pre-financing and came to the following amounts:

- EU contribution: 4.475.765,18 EUR;
- National contribution: 789.840,95 EUR.

According to the checks through financial and accounting records, performed calculation and by comparing the obtained results with data reported in AFR for 2021, we determined that amounts of Total Open Pre-financing were not properly reported. EU contribution was presented more for 1.841,68 € than it should be while National contribution was presented more for 325,00 €.

This discrepancy between data reported in AFR for 2021 and data resulting from our calculation is related to the amount of recoveries. Namely, by comparing the AFR and the accounting records, we concluded that the recovery was well presented in the AFR for 2021 but it was not adequately treated in accounting records of CFCU. We found that not all steps prescribed by the MoP 2.0 Accounting procedure were performed. In line with accounting procedures, Section „9.IA main entries“, it is prescribed that balance on account 115-8 *Receivables from the contractors/grant beneficiaries – for advances* should be reduced for the amount of recovery. Also, according to the Annex V to the Financing Agreement for SOPEES 2015-2017, Article 4 point (j) *Recovery orders to reduce pre-financing*, it is defined that recognition of the reduction of pre-financing on the balance sheet should be made following a recovery of unused pre-financing.

In this case CFCU did not reduce the balance on account 115-8 for the amount of recovery and accordingly amounts of opet pre-financing were not properly reported in AFR for 2021.

**Recommendation:**

We recommend improving controls related to preparation of the annual financial reports in order to ensure providing complete and accurate annual financial reports.

We recommend to CFCU to respect all prescribed accounting procedures related to making complete and proper accounting entries regarding recoveries.

<p><b>Auditee’s response: <i>Recommendation accepted</i></b></p> <p>It should be noted that direct grant contract brings many specificities, from the point of view of operational implementation of contract. Bearing in mind that implementation of contract is ongoing, by it’s finalization reconciliation of data will be done.</p> <p>Respecting that amount of cost recognized is less than amount paid, recoveries made did not affected amount of cost recognized so far. During the following period and by the end of contract, i.e. within next (final) report data in regard to financial implementation of the contract will be reconciled and properly recorder/reported.</p>
<p><b>Implementation deadline:</b> Preparation and submission of next AFR, continuously</p>
<p><b>Responsible person/s:</b> NAO; Head of CFCU</p>
<p><b>Auditor’s final conclusion:</b></p> <p>We agree that direct grant contract brings many specificities. However, in order to ensure providing complete and accurate information in annual financial reports, we consider that IA should pay more attention in the upcoming period on making complete and proper accounting</p>

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entries regarding recoveries as well as on controls related to preparation of the annual financial reports. We will monitor the implementation of recommendation.

Based on audit verifications performed, we summarized the results of checks and determined discrepancies in the following table:

<b>Categories/items from AFR</b>	<b>Sources</b>	<b>Amount reported in AFR for 2021 (1)</b>	<b>Amount verified by AA (2)</b>	<b>Differences (1-2) EUR</b>
Total Amount Contracted	EU contribution	14.730.342,11	14.730.342,11	0,00
	National contribution	2.599.472,11	2.599.472,11	0,00
	Other sources	1.125.018,05	1.125.018,05	0,00
Total Amount Decommitted on closure	EU contribution	0,00	0,00	0,00
	National contribution	0,00	0,00	0,00
	Other sources	0,00	0,00	0,00
Total Amount Disbursed	EU contribution	10.436.435,15	10.436.435,15	0,00
	National contribution	1.841.723,87	1.841.723,87	0,00
	Other sources	0,00	0,00	0,00
Total Costs Recognized	EU contribution	5.958.828,29	5.958.828,29	0,00
	National contribution	1.051.557,92	1.051.557,92	0,00
	Other sources	400.146,97	400.146,97	0,00
Total Open Pre-financing	EU contribution	4.477.606,86	4.475.765,18	1.841,68
	National contribution	790.165,95	789.840,95	325,00
	Other sources	0,00	0,00	0,00
Recovery context	Errors	0,00	0,00	0,00
	Irregularities	0,00	0,00	0,00
	Fraud	0,00	0,00	0,00
	No context	2.166,68	2.166,68	0,00
Bank Balances (EU contribution)	Total	3.149.963,10	3.149.963,10	0,00

**Table 14**

Based on the work performed, the Audit Authority gained reasonable assurance that total amounts of Programme Budget, Total Amount Contracted, Total Amount De-committed on closure, Total Amount Disbursed, Total costs recognised, Recovery context and Bank Balances (EU contribution) correspond to the amounts specified in the verified documents collected from NF and IAs (CFCU and PWA).

However, we determined that data presented in AFR for 2021 within column 12 – Total Open Pre-financing is not correct. Namely, after verifying the total amount disbursed (i.e. total pre-financing paid), total amounts recognised (i.e. amount of cleared pre-financing) and amount of recoveries, we determined that recoveries were not adequately treated through CFCU's accounting system and accordingly the amount of open pre-financing was not correctly presented in AFR for 2021.

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

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

On the basis of work performed, the Audit Authority reached a conclusion that all accounting information presented in the Annual Financial Report for the financial/accounting year 2021 regarding 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES), are prepared in accordance with the applicable Financial reporting framework and are complete, accurate and veracious in all material aspects except shortcoming described in point 2 of this Report.

The Audit Authority gained reasonable assurance that presented values of Total Amounts Contracted, Total Amount De-committed on closure, Total Amounts Disbursed, Total costs recognised, Recovery context and Bank Balances (EU contribution) correspond to the amounts specified in the verified documents collected from NF and IAs (CFCU and PWA).

However, we determined that data, presented in AFR for 2021 within column 12 – Total Open Pre-financing, is not correct. Namely, we determined that recoveries were not adequately treated through CFCU's accounting system which led to the situation that the amount of open pre-financing was not reduced for the amount (2.166,68 EUR) of returned funds (recoveries) and accordingly item 12 in AFR for 2021 is not completely presented in correct amount.

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

No problems considered to be systemic in nature were identified.

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

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

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

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

In the period January-February 2022 the Audit Authority regularly performed follow-up of the findings and recommendations given in the course of previous audits. Also, we performed follow-up of the findings and recommendations issued by external audits, i.e. Moore Stephens' Audit on information security (ICT) and BDO's Audit on Internal Audit Capacities (IAC) in the context of Internal Control Framework under the Instrument for Pre-Accession (IPA II).

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

#### ➤ *Follow-up of findings issued within the system audits*

List of findings from the Report on System Audit No. 3011-1-06-19/2 (February, 2020)					
No	Finding	Recommendation	Status as in February 2022	Priority level	New deadline for implementa
1	<p><b>Staffing and employees' turnover in CFCU</b> (Details: See section 4.2)</p> <p><b>Body/-ies concerned by the finding: CFCU/IA</b></p> <p>According to the Rulebook on internal organization and systematization of the Ministry of Finance, as well as according to WLA for 2019, 37 work posts are envisaged within the CFCU out of which 9 in</p>	<p>CFCU should tackle the issue of employee turnover. Detailed analysis should be done to discover the main reasons of the turnover.</p>	<p><b>Status:</b> <b>Implemented (preliminary)</b></p> <p>According to the auditee's response and submitted documentation, we concluded that finding was properly treated and the most of recommended activities had been</p>	n/a	n/a

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<p>Finance and Accounting Division.</p> <p>During the audit performed, based on insight into submitted documentation and interviews with CFCU staff, we determined the following:</p> <ul style="list-style-type: none"> <li>• Technical assistance projects implemented in the past period had direct influence and impact on all employees and provided them with the possibility to raise awareness and gain experiences from countries already implemented stages and processes commenced in Montenegro. A number of trainings, seminars, study visits, workshops have been organised aiming to upgrade professional knowledge and the opportunities for continuing professional development of staff in all IPA bodies. Also, a significant progress is being made towards solving issues regarding retention and motivation policy due to fact that Decision on top-up of salaries for IPA positions was adopted by Government of Montenegro in March 2019, as a part of a retention policy which aims at ensuring the retention of staff in IPA Body and promoting their effectiveness.</li> <li>• However, we identified a significant outflow of experienced and trained staff in CFCU. Based on insight into staff overviews it is evident that during the last year certain number of employees left CFCU. For example Head of Finance and Accounting Division, three Financial Controllers, one Quality Assurance Specialist and Accountant left CFCU. Bearing in mind that the total number of employees in CFCU during this period was between 27 and 33, we consider that previously mentioned staff turnover is</li> </ul>	<p>In order to ensure effective functioning of the Finance and Accounting Division, we recommend to CFCU to fill the vacancy of the head of the Division as well as vacant work posts in accordance with the Rulebook on internal organization and systematization of the Ministry of Finance and needs expressed in Work Load Analysis.</p> <p>Also, we recommend organizing appropriate education and trainings for newly engaged staff in order to train them and enable to perform assigned tasks in the best way.</p>	<p>implemented. The lack of employees in the Finance and Accounting Division is resolved, Head of Division has been appointed. Employees from the Finance and Accounting Division have attended various training sessions in the previous period, which have been organized during the course of the technical assistance project for the CFCU “Strengthening the Capacities of CFCU Montenegro for Management and Implementation of EU Funds”, CFCU/MNE/153, with special focus given to reporting and recognizing costs in implementation of grant contracts and on-the-job trainings in relation to the latter, including accounting. However, certain number of employees is engaged on temporary employment contracts. Also, the Decision on top-up of salaries for IPA positions is being successfully implemented.</p> <p>Bearing in mind all previously mentioned, we determined that CFCU mostly undertook proper activities in order to resolve identified deficiencies and we consider recommendations mostly implemented and finding is preliminary closed. However, we will continue to monitor this issue in the upcoming period.</p>		
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	<p>significant because it presents around 20% of total number of employees. Moreover, the core problem with staff turnover is related to Finance and Accounting Division which is of the utmost importance in the following period taking into account the functions and responsibilities of this Division (verifying that the expenditures incurred, paid and declared to the NAO comply with applicable Union and national law, the programme, the conditions for support of the action and the conditions of the contract, the goods or services have been delivered, and the payment claims by the recipient are correct;; making payments to, and recovery from, the recipients of IPA II assistance; etc.). Also, the work post of Head of Finance and Accounting Division is currently vacant, i.e. the Head of CFCU gave “Written Authorization for Appointment” to Financial controller to act as Head of Finance and Accounting Division until the formal employment of new head of this Division. We noted that this “acting head” situation lasts until April 2019.</p> <ul style="list-style-type: none"> <li>• At the beginning of this system audit the situation in Finance and Accounting Division was the following: five of nine work posts were filled, out of which two Financial Controllers on permanent basis while two FC and Accountant were engaged by contracts which have a temporary character. We identified this situation as more risky and during the performance of system audit we discussed with auditee on this issue. In meantime CFCU has undertaken certain measures in order to mitigate the risk of lack the employees and has engaged additional staff. However, as this new staff are not</li> </ul>				
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	<p>employed for an indefinite period and are not fully skilled to perform required tasks, it cannot be considered as a permanent solution (based on the latest staff overview, 3 individuals in the Financial division are employed for an indefinite period and 5 temporary). Therefore, it is needed to employ the employees in accordance with the Rulebook on internal organization and systematization of the Ministry of Finance, provide adequate trainings to newly engaged staff and this way ensure that Finance and Accounting Division can perform its functions and tasks in full capacity.</p>				
2	<p><b>Understaffing and employees' turnover in PWA</b> (Details: See section 4.3)</p> <p><b>Body/-ies concerned by the finding: PWA/IA</b></p> <p>Employees are the most significant factor of the management and control system. Timely and effective project implementation depends on the assurance of a sufficient number of employees with the required experience and knowledge.</p> <p>According to the WLA for 2019 (last updated in May 2019), 39 work posts are envisaged and needed within the PWA for implementing IPA activities.</p> <p>During the audit performed, based on insight into enclosed documentation and interviews with PWA staff, we determined the following:</p> <p>A significant outflow of experienced and trained staff in PWA has been identified. Based on insight into staff overviews it is evident that during the 2018 it was a significant employee fluctuation and leaves which was the subject of reservation in Annual Management Declaration for 2018.</p>	<p>PWA should tackle the issue of employee turnover. Detailed analysis should be done to discover the main reasons of the turnover. A retention policy is essential to retain employees business, particularly the staff of key positions/functions, but also to retain good quality and overloaded staff.</p> <p>In order to ensure effective functioning of the Implementing Agency, we recommend to PWA to fill vacant work posts in accordance with the Rulebook on internal organization and systematization of the Public Works Administration and needs expressed in Work Load Analysis.</p> <p>Also, we recommend organizing appropriate education and trainings for newly engaged staff in order to train them and enable to perform assigned tasks in the best way.</p>	<p><b>Status:</b> <b>Partially implemented</b></p> <p>On the basis of auditee's response and checks performed, we determined that PWA is still facing with staff turnover. In that regards, during 2021 the PWA undertook activities on solving this issue and employ additional staff who would response to the tasks of realization of IPA projects. Therefore, new staff has been engaged on the realization of IPA activities and nominated for the different positions in IPA PWA structure. These employees have been employed on a temporary basis. Due to that, the PWA will make necessary activities to resolve this situation on a permanent basis and, in legal frameworks, undertake all activities on the recruitment of the staff. Additionally, new Rulebook on Internal Organization and Systematization of Workplaces of the Public Works</p>	<p align="center"><b>Intermediate</b></p>	<p align="center"><b>September 2022</b></p>

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<p>During 2019, PWA has undertaken certain measures in order to mitigate the risk of lack the employees and has engaged additional staff. However, as this new staff are not employed for an indefinite period and are not fully skilled to perform required tasks, it cannot be considered as a permanent solution. In the period of performing this system audit the total number of employees in Implementing Agency Public Works Administration was 31 out of which 16 on a permanent basis and 15 were engaged by contracts which have a temporary character.</p> <p>Due to fact that almost 50% of current staff are engaged on a temporary basis and taking into account the needs expressed in WLA for 2019 and draft WLA for 2020, it is needed to employ staff in accordance with the Rulebook on internal organization and systematization of the Public Works Administration and ensure that Implementing Agency can perform its functions and tasks in full capacity.</p>		<p>Administration was adopted by the Government of Montenegro on 30th July 2021. By this adopted Rulebook new sector, Sector for Management of IPA projects, has been formed, as well as three Divisions within this Sector. A public competition has been announced for the position of Deputy Director for the Sector for Management of IPA projects, on 17th December 2021. Also, there were new nominations for the specific IPA tasks. multiple trainings were organized and held during the 2021. All trainings were organized both for the current staff as well as for the new employees. Trainings regarding PRAG rules, FIDIC rules, risk management, implementation of contracts, preparation of IPA projects, finance management, etc. were organized and PWA staff attended.</p> <p>Taking into account all previously mentioned, it is evident that big progress was made in the previous period and PWA made significant efforts in resolving the issues related to this finding. However, there is still a number of vacant posts in PWA (specialy in Division for financial-accounting procedures of the international projects) which will need to be filled in order to ensure effective functioning of the Implementing Agency. Thus, we consider recommendations partially implemented and we will monitor complete implementation of the recommendation.</p>		
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<p>3.</p>	<p><b>Strengthening internal audit capacities</b> (Details: See section 4.5)</p> <p><b>Level of Priority:</b></p> <p><b>Body/-ies concerned by the finding: All IPA bodies</b></p> <p>According to the Law on management and internal controls in public sector, the Internal Audit Department cannot have less than 3 internal auditors with the Head of the Internal Audit Department.</p> <p>Auditing the function of IAD in all IPA bodies we found that number of staff is not in line with the number of staff envisaged in the Rulebooks of Internal organization and systematization.</p> <p>For example, according to the valid Rulebook of Internal organization and systematization of Ministry of Finance, seven job positions are foreseen in the Internal Audit Department and according to job descriptions all of them are in charge of auditing EU funds. However, five job positions are filled while two job positions are vacant. Additionally, Ministry of Finance has signed 17 Agreements on the entrustment of internal audit work. By signing these Agreements IAD is committed to perform internal audit in the institutions with which agreements have been signed, which significantly increases their work load. The WLA has shown the necessity for additional staff. IAD conducted audits of DMS-NAO SO and CFCU during 2018 and issued audit reports.</p> <p>The Rulebook of internal organization and systematization of the Ministry of Labour and Social Welfare foresees 4 job positions in the Internal Audit Department out of which 2 are vacant. PIU in MLSW was a subject of internal audit in 2018.</p> <p>Also, the Rulebook of internal organization and systematization of the Ministry of Education</p>	<p>In order to ensure performing internal audit in IPA bodies on a regular basis, we recommend strengthening internal audit capacities by filling vacant work posts in the Rulebooks of Internal organization and systematization and also respecting the needs expressed in the WLA.</p>	<p><b>Status: Partially implemented</b></p> <p>Based on auditees' response and obtained documentation, we consider that IPA structure is aware of importance of having effective internal audit function. Centralised Internal Audit Unit responsible for audit of EU funds has been established within MFSW and until now two internal auditors have been nominated. Bearing in mind activities already undertaken in the previous period, as well as the activities planned for the upcoming period, it can be concluded that functional and operational capacities of Department in charge for audit of EU funds provides assurance for effective and efficient internal audit of EU funds. Ministry of Finance and Social Welfare considered mechanism of engagement of one more internal auditor with significant experience and it is expected that this issue will be resolved in II Q 2022. Additionally, training plan for 2021 for internal auditors have been approved and signed and properly realized. IAU staff are continuously attending thematic audit seminars. There is developed Plan of continuously performance of trainings for 2022 for IAU staff. In 2021, IAU for EU funds performed 2 audits in CFCU and PWA and 1 audit in the Ministry of Capital Investments. Annual plan for 2022 has been properly developed and signed by</p>	<p align="center"><b>Intermediate</b></p>	<p align="center"><b>September 2022</b></p>
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<p>foresees 4 job positions in total in the Internal Audit Department. It is determined that 3 internal auditors, Head of Internal Audit Department, Superior Internal Auditor and Junior internal auditor, are employed. Job position of Senior Internal Auditor is vacant. According to the job descriptions in Rulebook “Senior Internal Auditor” and “Junior Internal Auditor” are in charge of auditing EU funds. So Internal Audit Department currently can not perform the audit activities relating EU Funds with full capacities.</p> <p>The Rulebook of internal organization and systematization of the Public Works Administration foresees 4 job positions in the Internal Audit Department and all are vacant. We noted that PWA was subject to audit of IAD of Ministry of Sustainable Development and Tourism, as this IPA body in the previous period (before 2019) was a part of mentioned ministry.</p> <p>When it comes to the Ministry of Science, it is determined that this Ministry does not have internal audit department but internal audit tasks are entrusted to IAD of Ministry of finance. This PIU was not audited by IAD during 2018. Ministry of Human and Minority Rights also does not have internal audit department and internal audit tasks are entrusted to IAD of Ministry of Labour and Social Welfare. In 2018 this PIU was not subject to any internal audit. Until now, NIPAC office was not subject to any internal audit engagement.</p> <p>Lack of employees in the Internal Audit Departments, who are in charge of auditing EU funds may affect on performance of tasks as well as quality of conducting the audits.</p>		<p>IAD for EU funds.</p> <p>Taking into account all previously mentioned, it is evident that big progress was made in the previous period in resolving the issues related to this finding and establishing effective internal audit function in relation to IPA II.</p> <p>We consider that the recommendation is mainly implemented and we will monitor the full implementation of recommendation, i.e. effective and efficient functioning the internal audit of EU funds.</p>	
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<p align="center">4.</p>	<p><b>IT policy – Back up of data and trainings</b> (Details: See section 4.6)</p> <p><b>Body/-ies concerned by the finding: All IPA bodies</b></p> <p>According to the Manual of Procedures (V2.0), chapter IT policy, section Storage of data and back-up, inter alia the following is prescribed:</p> <ul style="list-style-type: none"> <li>• All important data is backed up on a daily basis;</li> <li>• The IPA Body staff shall always store data in the file/applications server (servers);</li> <li>• The User Coordinator shall ensure that backup information is maintained according to backup policy;</li> <li>• The IT Coordinator shall ensure that all key servers and systems have documented backup procedures. These procedures must be detailed and be essentially a step-by-step guide to how the task is completed for the various servers and data are backed up;</li> <li>• All storage media should be labelled clearly and stored in a secured, lockable fireproof safe or cabinet;</li> <li>• The IT Coordinator shall ensure that there are detailed restore procedures in place for each major system backed up. These procedures must be detailed and be essentially a step-by-step guide to how the task is completed for the various servers and data are restored in the event of a problem occurring e.g. a server/disk crash or lost/corrupted data.</li> </ul> <p>On the basis of performed on-the-spot checks and conducted interviews, we determined that archiving and backup of data is not performed in accordance</p>	<p>We recommend providing adequate archiving and back-up of data according to the procedures described in MoP Chapter IT policy in order to prevent data loss or ensure restoring of lost data.</p> <p>We recommend initiating and providing trainings related to IT Security policy.</p>	<p><b>Status: Partially Implemented</b></p> <p>According to the auditees’ response, we consider that significant progress has been made regarding this issue. Namely, IPA staff are currently using Share folder systems, in order to maintain all relevant data and documents. Once per week, most of them stores all data from the Shared folder on external hard disk, which was recently purchased. Certain IPA bodies purchased internal servers for storing data. However, permanent “centralized” solution regarding general IT security will be resolved by implementing Action plan ISO 27002. Action plan ISO 27002 regarding IT security policy was adopted on the Government session held on March 19<sup>th</sup> 2020. The implementation of the Action Plan is foreseen for the period 2020 - 2022 with activities requiring the involvement of an independent consulting institution with specific experience in the required field.</p> <p>The new Steering Committee was established by the relevant Decision of the Ministry of Public Administration on December 30<sup>th</sup> 2021, consisting of 4 members.</p> <p>Upgraded AP 2022 is in process of development and will be submitted after finalisation to the Government of Montenegro and further to the DG NEAR. ISO 27002 Policy/Strategy is</p>	<p align="center"><b>Intermediate</b></p>	<p align="center"><b>September 2022</b></p>
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	<p>with prescribed procedures. There is no properly defined back up storage. So, there is a risk of loss of data in case of error in information systems in which information is destroyed by failures or negligence in storage, transmission, or processing. To mitigate the risk of losing data, the staff from IPA bodies use external hard disks and USB disks for archiving data from their computers. They perform this periodically. Previously mentioned external hard disks are stored in the premises of each IPA body. However, archiving data in this way is not secure enough and is not in accordance with prescribed procedures for back up and archiving data which are described in MoP, chapter IT policy.</p> <p>Also, we have concluded that employees from IPA bodies did not have enough trainings related to IT security policy. In the period under review insignificant number of employees attended few trainings related to cyber security and computer data protection. Bearing in mind the importance of IT security, using file servers, having adequate and secure data storage, employees from IPA bodies should have more trainings with regard to this policy.</p>		<p>defined as primary point for the specific AP implementation hence will be developed as soon as possible by Ministry of Public Administration, Digital Society and Media.</p> <p>Until now, most activities envisaged in the IT Action plan ISO 27002 have not been implemented and AA will continue to monitor until the recommendation is fully implemented.</p>		
5.	<p><b>Inadequate and incomplete monitoring and reporting at sectoral and action level</b> (Details: See section 4.7)</p> <p><b>Body/-ies concerned by the finding: NIPAC Office<sup>9</sup></b></p> <p>According to IPA II Implementing Regulation No 447/2014, Article 4, the National IPA Coordinator (NIPAC) shall be the main counterpart of the European Commission for the overall process of strategic planning, coordination of programming, monitoring of implementation, evaluation and reporting of IPA II assistance. Therefore, in line with</p>	<p>We recommend to NIPAC Office carrying out proper coordination and taking all relevant and necessary activities, under its responsibility, in order to ensure that Monitoring and Reporting at Sectoral and Action Level</p>	<p><b>Status: Partially implemented</b></p> <p>During 2021, through regular communication the NIPAC Office with line ministries included in the implementation of IPA programmes emphasize the need for strengthening the monitoring system, including the one for SOPEES. However, the process was</p>	<p><b>Intermediate</b></p>	<p><b>September 2022</b></p>

<sup>9</sup> As monitoring and reporting at the action level is under the responsibility of PIUs, finding is indirectly addressed to all PIUs and will be under the scope of following system audits in PIUs

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<p>the IPA II IR, the responsibility for the monitoring of implementation belongs to the NIPAC, who has to set up an adequate monitoring framework under the OS.</p> <p>“The main role in reporting at programme level is with NIPAC office. Annual Report on Implementation of IPA II Assistance shall be drawn up under the coordination of NIPAC office with input from the bodies of the operating structures and related monitoring reports.</p> <p>When it comes to Monitoring and Reporting at Sectoral Level, the Semi-annual Action Monitoring Reports are prepared by NIPAC Office based on the inputs of the quarterly reports.</p> <p>Monitoring and Reporting at Action Level includes preparation of Quarterly Action Monitoring Reports which shall be drawn up under the coordination of NIPAC office and prepared by PIUs/Lead SPOs. QAMRs shall be submitted to the NIPAC office, quarterly during the year, with the following cut-off dates: 31<sup>st</sup> March, 30<sup>th</sup> June, 30<sup>th</sup> September and 31<sup>st</sup> December. QAMR shall be prepared and submitted to NIPAC office 10 working days after the cut-off dates.</p> <p>For proper coordination of the reporting requirements, NIPAC Office shall lead the process of preparing of all monitoring reports. In order to ensure timely preparation and high quality of reports, the NIPAC office shall:</p> <ul style="list-style-type: none"> <li>• Sets a time-schedule for preparing the annual reports;</li> <li>• Issue guidelines and instructions to SPOs/PIUs regarding their input for annual reports at Action level;</li> <li>• Ensures for the quality control of the input, submitted by the SPOs/PIUs;</li> <li>• Monitor the time-schedule for preparation of</li> </ul>	<p>are satisfactory and in accordance with prescribed procedures and IPA regulations. This way the potential risk of preparing and issuing Annual Report on Implementation of IPA II assistance on the basis of inadequate and incomplete information about SOPEES will be mitigated.</p>	<p>endangered by the continuous pandemic of COVID 19 and establishment of new structures of the Government, especially in the Ministry of Justice, Human and Minority Rights leading that this PIU hasn’t delivered any QAMR during 2021. Therefore, monitoring and reporting at action level has not been implemented in line with procedures. Additional efforts will be made and several TA projects have been planned to be implemented in 2022 with the aim improve the monitoring system in Montenegro once the Governmental structure is established in the new form and the final result will be to have the semi-annual reports prepared in line with prescribed procedures.</p> <p>Based on the auditee’s response and enclosed evidences, we found that NIPAC Office undertook respective activities in order to improve coordination and to ensure adequate Monitoring and Reporting regarding SOPEES.</p> <p>However, we have concluded that implemented activities did not fully yield results. We still have the situation that Quarterly Monitoring Reports have not been submitted regularly as well as Semi-annual monitoring report.</p> <p>We will monitor the implementation of recommendation.</p>		
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<p>annual reports, approval and submission.”</p> <p>Based on documentation obtained, desk checks performed and interviews conducted we determined that monitoring activities regarding IPA II 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES) is not at satisfied level and is not in accordance with prescribed procedures.</p> <p>Namely, reviewing documentation related to preparation of Annual Report on Implementation of IPA II Assistance in 2018 we determined that this report was issued in time but was not based on information deriving from Semi-Annual Sector Monitoring Report. Actually, during the on the spot check at the NIPAC Office we were not presented any SASMR because this type of monitoring document has not been prepared and issued in the previous period. Due to this fact we consider that monitoring and reporting at sectoral level has not been implemented in line with prescribed procedures.</p> <p>Also, we determined that Monitoring and Reporting at Action Level was not at the satisfied level in the previous period. On the basis of enclosed documentation, we determined that only one PIU (MLSW) respected procedures and responsibility of drawing up Quarterly Action Monitoring Reports (QAMR) for each period of implementation while one PIU (MoS) partially fulfilled this obligation. The rest of PIUs did not respect obligation preparing and submitting QAMRs to NIPAC Office. Therefore, we consider that monitoring and reporting at action level has not been implemented in line with procedures.</p> <p>Therefore, monitoring and reporting at the sector and action level were not satisfactory in the previous period, i.e. were not carried out in line with prescribed procedures. In our opinion this may lead</p>				
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	to potential risk that Annual Report on Implementation of IPA II assistance could be prepared on the basis of inadequate and incomplete information about SOPEES.				
<b>List of findings from the Report on System Audit No. 3011-1-06-402/3 (December, 2020)</b>					
No	Finding	Recommendation	Status as in February 2022	Priority level	New deadline for implementation
1.	<p><b>Insufficient understanding of the risk management process</b> (Details: See section 4.1)</p> <p><b>Body/-ies concerned by the finding: All IPA bodies</b></p> <p>According to MoP, Chapter Risk Management: “Risk management goal is to bring the related risks to an acceptable level by carrying out measures that would mitigate the likelihood of risk occurrence, impact of risk realization or both at the same time.</p> <p>Analysis of risks with defined level of risk acceptance may provide reasonable assurance that the objectives will be achieved. However, even a well-designed and operated Risk management cannot guarantee that all objectives will be fully achieved.</p> <p>In practice, Risk management activity at any level of the IPA structure and authorities is implemented by:</p> <ul style="list-style-type: none"> <li>• Preventive actions;</li> <li>• Administrative verifications;</li> <li>• On-the-spot verifications;</li> <li>• Any other action/ initiative that may mitigate identified risks.</li> </ul> <p>The Risk management includes different activities</p>	<p>We recommend to all IPA bodies to organize additional trainings for all persons involved in the risk management process and to provide detailed instructions on how and when to complete each annex related to risk management. These trainings should be designed to contribute to a better understanding of risk management, a clearer defining of risks and mitigating actions, etc.</p>	<p><b>Status: Mainly implemented</b></p> <p>AA identified significant efforts of management and operating structure in the previous period in regard of improving risk management. Risk Management Panel is set up twice a year, in order to bring together the Risk managers of the bodies constituting the internal control system for IPA II. The second Risk panel was held through model of training in area of risk management, under the project of Strengthening the capacities of Directorate for Management Structure for IPA Programmes managed under indirect management. Purpose was one-day training in risk management to support the NAO/DMS and IPA bodies in improving risk management practice. Additionally, DMS Upgrading of Manual of procedures is on-going. Namely, NAO/DMS initiated intensive work on Manual of Procedures version 3.0, which</p>	<p><b>Reduced from Intermediate to LOW</b></p>	<p><b>September 2022</b></p>

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<p>like identifying, assessing, prioritizing risks, planning, implementation and review of mitigating or corrective actions as well as in advance planning and control.”</p> <p>Based on documentation obtained, desk checks performed and interviews conducted, we concluded that risk management activities regarding IPA II 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES) and in general understanding of risk management is not at satisfactory level.</p> <p>We identified that all formal requirements in Risk Management have been met, that everyone in the IPA structure recognizes the risks, fills in risk alert forms, fulfils risk register and makes action plans.</p> <p>Despite all the formally met conditions in the process of identifying risks and planning actions that will reduce them, we consider that this is an area that needs more attention in order to improve this process and thus contribute to achieving the set goals. Namely, it is a common situation that risk alert forms are filled in just before the risk panel and on the same date the risk registers and action plans are filled out. Because of this approach, it happens that: dates are entered incorrectly, risks are vaguely defined, risk mitigation actions are planned too generally and without clear timelines, the registers are filled in the wrong column, the same risk is recognized several times, risks are deleted from the risk register and so on. During the conducted interviews with risk managers, we found that the auditees had recognized the risks and had reacted to them in a timely manner but they had not had a record of what actions they had undertaken.</p> <p>Below we have singled out some examples of deficiencies and misunderstandings of risk</p>		<p>will cover all necessary changes and improve existing annexes and procedures regarding Risk Management. Chapter Risk Management was upgraded properly within clarification of the guidelines for risk management process i.e. recognition of risks, filling in risk alert forms, fulfilling risk register and developing action plans. Adoption of MoP v. 3.0 is expected to be fully processed till the end of 2nd Q of 2022. Representatives of all IPA bodies attended RMPs and respective trainings related to risk management process. In this regard, annexes related to RM have been updated and properly improved. We reduce the priority level from intermediate to low and we will monitor the full implementation of recommendation.</p>	
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<p>management process in different bodies:</p> <ul style="list-style-type: none"> <li>• MHMR-PIU Risk alert forms were completed on 25/06/2020 while in the risk register states that the risks were identified on 03/12/2019. Also, the risk register did not include the risk of delays in implementation of the Action but this risk was identified within the risk action plan.</li> <li>• MoE-PIU Risk Action Plan, under risk no 3 the following is defined: <ul style="list-style-type: none"> <li>- Risk trigger event, situation or factor - Need for continuous capacity building of IPA officers for IPA project implementation</li> <li>- Mitigation measures - Continuous training of personnel</li> <li>- Responsibility - Head of PIU</li> <li>- Timeline for implementation of measures – Continuous</li> <li>- Action already taken (follow up information) <ul style="list-style-type: none"> <li>- PIU officers attended IPA -targeted training events.</li> </ul> </li> </ul> </li> <li>• CFCU-IA The risk No. 82 in the Risk register is defined as follows: <ul style="list-style-type: none"> <li>- Risk trigger event, situation or factor - The following activities defined in the ToR related to Component 1 (activity 4 and 5) and Component 2 (activity 4) have not been implemented yet. Bearing in mind that the end of the contract is September 2020, there is a certain risk that the indicators defined in the ToR will not be fulfilled.</li> <li>- Impact area and description of potential consequences - Improvement and</li> </ul> </li> </ul>				
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	<p>strengthening of institutional set-up and legal framework in the area of state aid and public procurement</p> <ul style="list-style-type: none"> <li>- Recommended preventive/contingency actions - The contract manager responsible for this project informed his superiors on any obstacle that could affect the implementation of the project. It is planned that the contractor submits to the CFCU the request for an addendum (no cost extension).</li> <li>• MLSW-PIU All risk alert forms and all risks in Risk Register are from 25/06/2020.</li> <li>• PWA-IA The risk of Lack of staff (Insufficient number of employees, Staff have been overloaded) was opened for nine times/positions in the Risk Register. There are also active risks in the RR with a probability and impact equal to zero.</li> </ul> <p>In our opinion, this approach cannot ensure measures that mitigate the likelihood of risk occurrence, impact of risk realization or both at the same time.</p> <p>These measures do not ensure the achievement of the goal since the specific action is planned only after the emergence of a risky situation, and this can often be untimely. Our opinion is that all this occurs due to insufficient understanding of the risk management process.</p>				
2.	<p><b>Non-compliance with prescribed rules and procedures related to contracting and payment procedures</b> (Details: See section 4.2)</p> <p><i>Body/-ies concerned by the finding: CFCU/IA</i></p>		<p><b>Status:</b> <b>Implemented (preliminary)</b></p> <p>According to the auditee's response, we consider that CFCU is aware of</p>	n/a	n/a

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<p>According to the Framework Agreement between Montenegro and the European Commission on the arrangements for implementation of Union financial assistance to Montenegro under the Instrument for Pre-accession Assistance (IPA II), the following provisions shall be respected:</p> <p>Article 12 Conditions for entrusting the IPA II beneficiary with budget implementation tasks</p> <p>“...  (2) When managing IPA II funds, the IPA II beneficiary shall respect the principles of sound financial management, transparency and non-discrimination, and shall ensure the visibility of IPA II assistance. The IPA II beneficiary shall guarantee a level of protection of the financial interests of the European Union equivalent to that required under the Financial Regulation when managing IPA II funds, with due consideration for:</p> <p>a) the nature of the tasks entrusted to them and amounts involved;  b) the financial risks involved;  c) the level of assurance stemming from their systems, rules and procedures together with the measures taken by the Commission to supervise and support the implementation of the tasks entrusted to them.</p> <p>(3) In order to protect the financial interests of the Union, the IPA II beneficiary shall:</p> <p>a) set up and ensure the functioning of an effective and efficient internal control system;  ...  d) apply appropriate rules and procedures for providing financing from IPA II assistance through grants, procurement and financial instruments.”</p> <p>According to the PRAG (Version 2018.0), section 2.10.2. Contract preparation and signature, among the other provisions, the following is stipulated:  “When preparing the contract for signature, the</p>	<p>We recommend to CFCU/IA to:</p> <ul style="list-style-type: none"> <li>- Strictly respect all principles and rules for implementation of Union financial assistance under IPA II in order to protect Union and national interests in line with provisions of FwA and Financial Regulation. Failure to fully respect relevant rules and principles can jeopardize financial interests and may lead to risk of incurring additional unnecessary costs.</li> <li>- Avoiding publishing different variants of one document/annex under the same call for proposals/tender and clearly defining all relevant requirements needed to be fulfilled. Once requirements are established and published, they should be fully respected by the end.</li> <li>- Improving controls in order to ensure that provisions of contracts signed are fully respected.</li> </ul>	<p>omissions made within this grant scheme and necessity to pay more attention to the future calls and procurements. We found that in the previous period CFCU took care of fully respecting all relevant rules and procedures and we checked procurement procedures and calls for proposals conducted after the issuing of this finding and recommendations. We found that CFCU respected the principles of sound financial management, transparency and equal treatment.</p> <p>We consider this finding preliminary closed. However, we will continue to monitor this issue in the upcoming period.</p>		
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<p>contracting authority must proceed as follow:          ...          -Sign and date all originals of the contract and initial all pages of the special conditions and most relevant annexes including, for grants, the budget. In case of grants, the contracts <b>must be signed within 3 months</b> from the date of notification of the evaluation results, ...          -Send the signed originals of the contract to the successful tenderer/applicant, who must countersign them within 30 days of receipt.          -The tenderer or grant applicant keeps one original and returns the other(s) to the contracting authority with any financial guarantee(s) required in the contract. If the successful tenderer/applicant fails to do this within the specified deadline or indicates at any stage that it is not willing or able to sign the contract, the tenderer/applicant cannot be awarded the contract.          ...“          Reviewing and analysing documentation related to Grant scheme “<i>Training and education activities for deficit occupations and for boosting employability of RE population</i>” (EuropeAid/163191/ID/ACT/ME), we have determined deficiencies within the contracting and payment procedures for certain grant contracts. The restricted Call for proposals was published on 01/03/2019. We identified that two different templates of grant contract (special conditions) had been published at the same time. Namely, Standard Grant Contract with all relevant annexes was published as zipped file Annex G and the second template of Grant contract, which was pre-adapted for this call for proposals, was published as a separate document/annex. The main difference between these two annexes (templates) is the requirement regarding pre-financing guarantee. In the standard template, the provision of pre-financing guarantee is foreseen as optional (if deemed</p>				
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<p>necessary and appropriate by the Contracting Authority). In the template pre-adapted for this particular call for proposals, provision of the pre-financing guarantee is mandatory (Article 4.2: “<i>The first instalment of pre-financing shall be accompanied by a financial guarantee amounting to EUR &lt;amount, usually the amount of the first pre-financing payment&gt; and complying with the requirements of Article 15.8 of Annex II.</i>”).</p> <p>We determined that evaluation phase had been finished by mid-August 2019 when Evaluation Report Step 3 was approved by EUD (15/08/2019). Notifications to nine successful applicants were sent on 13/09/2019 out of which four selected applicants were private entities. Request for global endorsement was approved by EUD on 14/11/2019 and Contracting Authority sent contracts for signature on 15/11/2019. However, analysing all of 9 signed grant contracts (special conditions), we determined that 8 contracts had been signed by Head of CA on 15/11/2019 while one of them had been signed by CA on 30/01/2020. Considering that notifications on the outcome of the evaluation were sent on 13/09/2019 and the rule that the contracts <b>must be signed within 3 months</b> from the date of notification of the evaluation results, it is evident that in case of grant contract CFCU/MNE/094 the previously mentioned rule has been violated. We have been informed by CA that delay in signing of this grant contract was because private entity didn't want to sign contract due to inability to provide pre-financing guarantee. Lastly, this grant contract was signed in the same way as the other three with private entities within this grant scheme</p> <p>As aforementioned, according to the rules and documentation published for this call for proposals, four out of nine successful applicants (private entities) were obliged to provide pre-financing</p>				
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<p>guarantee because they are profit making entities. These four grant contracts were signed in line with template of Grant contract which was pre-adapted for this call for proposals (the provision of pre-financing guarantee was a must). However, after signing the contracts all of four awarded applicants/private entities informed CA that they were neither able to provide the pre-financing guarantee due to high banking costs, nor to start with realisation of project activities from its own budget, due to insufficiency of available funds. Therefore, we identified non-compliance with previously noted provisions of PRAG section 2.10.2 because awarded grant applicants signed the contracts and returned the originals to the Contracting Authority without financial guarantee required in the contract.</p> <p>In order to resolve this situation and to ensure the implementation of these grant contracts, CA decided to proceed with addenda to all four contracts and to remove the requirement for the pre-financing guarantee. The addenda to four grant contracts (CFCU/MNE/094, CFCU/MNE/097, CFCU/MNE/099 and CFCU/MNE/100) was sent on 05/02/2020 to EUD on ex-ante control. Addendums were signed by the end of February and at the beginning of March 2020. Afterwards, CA executed advance payments for these grant contracts (without requiring pre-financing guarantees). According to the Annex II (General Conditions) to grant contracts, article 15.4. <i>“The initial pre-financing payment shall be made within 30 days of receipt of the payment request by the contracting authority.”</i> In addition to the fact that payments were made with a significant delay in relation to the dates of signing grant contracts, in case of one contract advance payment was also executed with delay in relation to the date of signing the addendum to the contract. CA explained that this payment has been postponed due</p>				
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<p>to Government measures caused by COVID-19. Considering the date of signature of addendum and the starting date when Government measures took place, we found this explanation irrelevant.</p> <p>The summarized data with dates is presented in the following table:</p> <table border="1" data-bbox="241 427 813 687"> <thead> <tr> <th>Number of grant contract</th> <th>Notification of evaluation results</th> <th>CA signature date of contract</th> <th>Contractor signature date of contract</th> <th>Addendum signature date</th> <th>Date of pre-financing payment</th> </tr> </thead> <tbody> <tr> <td>CFCU/MNE/094</td> <td>13/09/2019</td> <td>30/01/2020</td> <td>03/02/2020</td> <td>27/02/2020</td> <td>12/03/2020</td> </tr> <tr> <td>CFCU/MNE/097</td> <td>13/09/2019</td> <td>15/11/2019</td> <td>25/11/2019</td> <td>28/02/2020</td> <td>12/03/2020</td> </tr> <tr> <td>CFCU/MNE/099</td> <td>13/09/2019</td> <td>15/11/2019</td> <td>21/11/2019</td> <td>03/03/2020</td> <td>13/04/2020</td> </tr> <tr> <td>CFCU/MNE/100</td> <td>13/09/2019</td> <td>15/11/2019</td> <td>21/11/2019</td> <td>12/03/2020</td> <td>02/04/2020</td> </tr> </tbody> </table> <p>Additionally, we determined that addendums of contracts did not have any change regarding the implementation period of actions. Bearing in mind the explanations and arguments for waiving the pre-financing guarantees, i.e. that awarded GBs are neither able to provide the pre-financing guarantee due to high banking costs nor to start with realisation of project activities from its own budget, due to insufficiency of available fund, the question is whether they really waited for the payment of funds to start activities. Taking into account that advance payments were made 3 months (or more) later than predicted start date of implementation of the actions, there was a high risk that planned activities would not be fully implemented.</p> <p><u>Conclusion:</u></p> <p>Awarded grant beneficiaries failed to comply with provisions of signed contracts, i.e. did not provide pre-financing guarantees, and Contracting Authority undertook the risk of potential failure to respect the principles of sound financial management,</p>	Number of grant contract	Notification of evaluation results	CA signature date of contract	Contractor signature date of contract	Addendum signature date	Date of pre-financing payment	CFCU/MNE/094	13/09/2019	30/01/2020	03/02/2020	27/02/2020	12/03/2020	CFCU/MNE/097	13/09/2019	15/11/2019	25/11/2019	28/02/2020	12/03/2020	CFCU/MNE/099	13/09/2019	15/11/2019	21/11/2019	03/03/2020	13/04/2020	CFCU/MNE/100	13/09/2019	15/11/2019	21/11/2019	12/03/2020	02/04/2020				
Number of grant contract	Notification of evaluation results	CA signature date of contract	Contractor signature date of contract	Addendum signature date	Date of pre-financing payment																													
CFCU/MNE/094	13/09/2019	30/01/2020	03/02/2020	27/02/2020	12/03/2020																													
CFCU/MNE/097	13/09/2019	15/11/2019	25/11/2019	28/02/2020	12/03/2020																													
CFCU/MNE/099	13/09/2019	15/11/2019	21/11/2019	03/03/2020	13/04/2020																													
CFCU/MNE/100	13/09/2019	15/11/2019	21/11/2019	12/03/2020	02/04/2020																													

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	<p>transparency and equal treatment. In this way Union and national financial interests were compromised and were not protected in line with provisions of FwA and Financial Regulation bearing in mind that CFCU/IA cannot ensure that pre-financing could be repaid in case of termination of contracts. Having this in mind, we consider that in this case CFCU/IA did not fully adhere to the principle of sound financial management. Principle of transparency was not fully respected in case of Grant contract CFCU/MNE/094. The principle of equal treatment was compromised by the fact that in the published pre-adapted template of grant contract the provision of pre-financing guarantee was a must but later, after the contracts signature, CA waived from requesting financial guarantee. In such a way preferential treatment was given to these four beneficiaries over others who maybe did not apply at this call for proposals because of requirement for pre-financing guarantee.</p>				
3.	<p><b>Exceeding the period for informing the applicants of the outcome of the evaluation process</b> (Details: See section 4.3)</p> <p><b>Body/-ies concerned by the finding: CFCU/IA; MHMR/PIU</b></p> <p>According to the Financing Agreement, Annex II, <i>Article 2 Public procurement</i>: “(1) The tasks referred to in Article 1(1) shall be carried out by the IPA II beneficiary in accordance with the procedures and standard documents laid down and published by the Commission for the award of the procurement and grant contracts in external actions, in force at the time of the launched the procedure in question (PRAG), as well as in accordance with required visibility and communication standards referred to in Article 3(2).”</p>	<p>We recommend to the NAO to undertake activities prescribed by Financial Regulation in the event of exceeding the period for informing all applicants of the outcome of the evaluation of their applications.</p> <p>We recommend to CFCU/IA improving controls within the tendering and evaluation process in order to ensure timely implementation of the whole procedure with respecting the rules and provisions of relevant regulations. In case of changing provisional dates presented in indicative timetable, we recommend timely updating it and publishing on</p>	<p><b>Status:</b> <b>Partially implemented</b></p> <p>For the efficient and effective functioning of a system it is necessary that all the links in the chain be proactive and effective. We consider that all actors in the system should efficiently and effectively do the work within their competences. According to the auditees’ responses, enclosed evidences and checks performed, we concluded that the deadlines set in the PRAG and the MoP were regularly met by CFCU in the period after issuing this finding. Bearing in mind that the first part of</p>	<p align="center"><b>Reduced from Intermediate to LOW</b></p>	<p align="center"><b>September 2022, continuously</b></p>

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<p>PRAG (Version 2019.0), stipulates the following:</p> <p><i>Section 2.9.4. Timetable</i> “The evaluation committee must be formed early enough to ensure that the members (and any observer appointed by the European Commission) are available in time to prepare and conduct the evaluation process. The tenders must be evaluated in time to allow the procedure to be completed within the validity period of the tenders. Extending the validity of tenders (see Section 2.9.5.) should be avoided. It is very important that all tenderers, whether successful or unsuccessful, receive information without delay.”</p> <p><i>Section 6.5.10. Awarding grants:</i> “Notifications to the successful lead applicants on the outcome of the evaluation of their applications <b>must be provided within 6 months</b> following the submission deadline of the full application.”</p> <p>During the performance of audit activities and checks related to requirement 3-Control activities from Internal Control Framework (Annex B to FwA), we identified that grant scheme “Support to the social inclusion of Roma and Egyptians” had been carried out through open call for proposals (Ref: EuropeAid/165-661/ID/ACT/ME). According to the Guidelines for grant applicants, which were published on 07/08/2019, in the section 2.2.3 it was stipulated that the deadline for submission of full application is 07/11/2019. In Section 2.5.2 of Guidelines Indicative timetable for this call for proposals was given and indicative dates of, inter alia, “8.Notification of award (after the eligibility check)(Step 3)” were set out on 18/02/2020 and “9.Contract signature” on 31/03/2020. Below this indicative timetable it was stated as follows: “<i>This indicative timetable refers to provisional dates (except for dates 2, 3, and 4) and may be updated by</i></p>	<p>relevant sites.</p> <p>We recommend to PIU/MHMR timely sending the proposal for the evaluation committee members for the upcoming procurements and calls for proposals under its responsibility in order to create preconditions for nomination of evaluation committee on time and starting the evaluation process.</p>	<p>recommendation was not implemented, we consider this finding partially closed.</p> <p>However, we will continue to monitor the implementation through future procurements and calls for proposals.</p>		
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<p><i>the contracting authority during the procedure. In such cases, the updated timetable will be published on the web site of DG International Cooperation and Development:</i>  <i><a href="https://webgate.ec.europa.eu/europeaid/online-services/index.cfm?do=publi_welcome_and_the_Contracting_Authority_website">https://webgate.ec.europa.eu/europeaid/online-services/index.cfm?do=publi_welcome_and_the_Contracting_Authority_website</a>: <a href="http://www.cfcu.gov.me/en/tenders/grants/open_calls">http://www.cfcu.gov.me/en/tenders/grants/open_calls</a>.”</i></p> <p>However, we found that neither previously mentioned dates within Indicative timetable were respected nor were they updated and published. Moreover, the activities from the date of the deadline for submission of full applications to notifying the applicants on the outcome of the evaluation process lasted too long. This led to the situation that provision of the Financial Regulation and PRAG, which is related to the period for informing the applicants of the outcome of the evaluation process (a maximum of six months from the final date for submission of complete proposals), was not respected.</p> <p>Namely, the Contracting Authority sent to the successful lead applicant and unsuccessful applicant notifications on the outcome of the evaluation of their applications on 02/07/2020. Bearing in mind that the deadline for submission of full applications was 07/11/2019 it is evident that the period for informing the applicants of the outcome of the evaluation process was exceeded for 1 month and 25 days.</p> <p>In our opinion a various factor caused this delay as follows:</p> <ul style="list-style-type: none"> <li>• Firstly, the nomination of Evaluation Committee was not timely. Taking into account that call for proposals was published on 07/08/2019 and that the</li> </ul>			
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	<p>deadline for submission of full applications was 07/11/2019, it is incomprehensible that EvC was officially nominated by Head of CA on 10/12/2019 (after the EUD approval on 09/12/2019). The reasons for delay of nomination of EvC lie in the fact that PIU sent proposal of members of Evaluation Committee very late on 20/11/2019 and that EUD approved the nomination of EvC 14 days (09/12/2019) after the CA sent proposal (25/11/2019).</p> <ul style="list-style-type: none"> <li>• Consequently, the first meeting of EvC was held on 18/12/2019. First step of the evaluation process was formally finished on 12/02/2020 when the Evaluation Report Step 1 was approved by EUD. On 13/02/2020 CA informed applicants who had satisfactory concept notes that their full applications will be evaluated.</li> <li>• The evaluation process step 2 and 3 also lasted too long, taking into account that only two full applications had been evaluated. The first meeting of EvC was held on 14/02/2020 and the last was on 18/05/2020. The Evaluation Report Step 2 was prepared and signed on 20/05/2020 while EUD approved it on 17/06/2020. The ER step 3 was prepared and signed on 18/06/2020 and approved by EUD on 01/07/2020. Finally, the applicants were informed by CA on the outcome of the evaluation of their applications on 02/07/2020.</li> </ul> <p>Therefore, the evaluation committee was not formed timely to ensure that the evaluation process is conducted on time and, in our opinion, the evaluation process lasted too long which led to the exceeding the prescribed deadline.</p>				
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<p>4.</p>	<p><b>Non-respecting the procedure related to cancellation of procurement</b> (Details: See section 4.4)</p> <p><b>Body/-ies concerned by the finding: CFCU/IA</b></p> <p>PRAG (Version 2018.0), stipulates the following: Section 2.6.13. Cancellation of procurement procedures “... <i>If a procurement procedure is cancelled, all tenderers <b>must</b> be notified in writing and as soon as possible of the reasons for the cancellation. A cancellation notice must be published. See the template in Annex A5.</i>”</p> <p>During the performance of audit activities and checks regarding procurement procedure “Further development of the local employment initiatives in Montenegro” (EuropeAid/139848/IH/SER/ME), we determined that prescribed procedures related to cancellation of procurement had not been fully respected. Namely, the Prior Information Notice for service tender procedure was published on 21/08/2018 and Contract Notice was primarily published on 09/10/2018 with the deadline for receipt of applications on 12/11/2018. However, this tender procedure was cancelled and re-launched. Cancellation notice was submitted to EUD for ex-ante control and approval on 15/11/2018. Cancellation notice was approved by EUD on 22/11/2018 and published on 27/11/2018. Reviewing the procedure and documentation related to cancellation and relaunching of this tender procedure, we did not find any evidence that tenderers were notified in writing on this situation. Considering the primarily established deadline for submission of applications (which was 12/11/2018)</p>	<p>We recommend to CFCU/IA to consistently apply all prescribed rules and procedures for each type of procurement and grant calls. If a procurement procedure is cancelled, all tenderers must be notified in writing and as soon as possible of the reasons for the cancellation.</p>	<p><b>Status: Not implemented</b></p> <p>We will monitor the implementation through all future procurements and calls for proposals.</p>	<p><b>Reduced from Intermediate to LOW</b></p>	<p><b>September 2022, continuously</b></p>
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	and date of submission of Cancellation Notice to EUD (which was 15/11/2018) as well as date of publishing the Cancellation Notice (which was 27/11/2018), it was necessary that all interested tenderers were notified in writing on cancellation of this procedure and reasons for the cancellation.				
5.	<p><b>Lack of monitoring and reporting at action level</b> (Details: See section 4.6)</p> <p><b>Body/-ies concerned by the finding: MHMR/PIU</b></p> <p>According to the MoP 2.0 Chapter Programme Action Monitoring: “Quarterly Action Monitoring Reports (QAMR) shall be drawn up under the coordination of NIPAC office and prepared by PIUs/Lead SPOs; QAMR contains financial data provided by the CFCU and DPW. In order to enhance efficiency and bring additional simplification of the procedures, one QAMR is prepared by SPO/PIUs for NIPAC Office and implementing agencies”. Therefore, PIU/SPO has the obligation and the responsibility to draw up action monitoring reports quarterly and submit it to NIPAC Office, which is responsible for preparing the Annual Report on Implementation of IPA II assistance and the Final Report on Implementation of IPA II assistance based on information deriving from 2nd Semi-Annual Sector Monitoring Report SASMR (with cut-off date 30th September), that is complemented with information deriving from 4th Quarterly Action Monitoring Reports QAMRs. QAMRs shall be submitted to the NIPAC office, quarterly during the year, with the following cut-off dates: 31st March, 30th June, 30th September and 31st December. QAMR shall be prepared and submitted to NIPAC office 10 working days after the cut-off dates.</p> <p>Based on documentation obtained, desk checks</p>	<p>We recommend to PIU MHMR/SPO to put the activity of drawing up of QAMRs and submitting it to the NIPAC/NIPAC Office within the prescribe deadline in the Annual Work Plan. Furthermore, in accordance with the AWP and obligations regarding monitoring and reporting, we recommend to MHMR/PIU to timely and regularly draw up QAMRs and submit it to the NIPAC/NIPAC Office. In this way, PIU MHMR will ensure that Monitoring and Reporting at Action Level are in accordance with prescribed procedures and IPA regulations. Also, the potential risk of preparing and issuing Semi-Annual Sector Monitoring Report SASMR and Annual Report on Implementation of IPA II assistance by the NIPAC on the basis of inadequate and incomplete information about SOPEES will be mitigated.</p> <p><b>Note:</b> During the contradictory procedure and before issuing the final system audit report, PIU sent the</p>	<p><b>Status: Not implemented</b></p> <p>During 2021 PIU did not implemented this recommendation.</p> <p>The implementation will be monitored.</p>	<p><b>Intermediate</b></p>	<p><b>September 2022</b></p>

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<p>performed and interviews conducted we determined that monitoring activities regarding IPA II 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES) were not at satisfactory level and were not in accordance with prescribed procedures.</p> <p>Namely, after conducting the interview with PIU MHMR staff, we determined that none of the QAMR for 2019 or 2020 had been drawn up or submitted to the NIPAC Office, as prescribed by the MoP 2.0. Therefore, monitoring and reporting at action level has not been implemented in line with procedures. Furthermore, having an insight into the Annual Work Plan of PIU MHMR for 2020, we noticed that drawing up of QAMRs and submitting it to the NIPAC Office had not planned in the AWP.</p> <p>To summarize, obligations regarding monitoring and reporting at the action level were not fulfilled in the previous period as prescribed by the procedures from MoP. In our opinion this may lead to potential risk that Semi-Annual Sector Monitoring Report SASMR and Annual Report on Implementation of IPA II assistance, prepared by NIPAC on the basis of QAMRs could be prepared based on the inadequate and incomplete information about actions/activities for which MHMR is responsible.</p>	<p>following response “Due to the COVID 19 and specific situation, first quarterly report was not sent, but after that we sent regularly following reports.” To confirm this, please submit the evidences (e-mails, official letters) that QAMRs for second, third and fourth quarter of 2020 were regularly sent to NIPAC office.</p>			
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**Table 15**

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

In system audit carried out during 2020 six findings and recommendations had been given out of which two were implemented, three are partially implemented and two not implemented.

Within system audit conducted in 2021, five findings and recommendations were issued out of which one is partially implemented and four not implemented.

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➤ *Follow-up of findings issued within the audits of accounts*

List of findings from the Report on Audit of accounts No. 3011-3-06-129/2 ( March, 10th 2021)														
No	Finding	Recommendation	Status as in February 2022	Priority level	New deadline for implementa									
1	<p><b><i>Incorrectly presented “Total amount contracted” Annual Financial Report for 2020, item No. 4</i></b></p> <p><b><i>Level of Priority: Intermediate</i></b></p> <p><b><i>Body/-ies concerned by the finding: NAO/NF</i></b></p> <p>According to the Annual Financial Report for 2020 for 2015-2017 SOPEES, which NAO submitted to EC on 15<sup>th</sup> February 2021, total contracted amount is as follows:</p> <ul style="list-style-type: none"> <li>➤ EU contribution: 10.819.757,78 EUR;</li> <li>➤ National contribution: 1.909.368,99 EUR;</li> <li>➤ Other sources: 852.298,61 EUR.</li> </ul> <p>Based on documentation obtained, desk checks performed and on-the-spot checks in Implementing Agencies/Contracting Authorities, we identified discrepancies between data presented in AFR for 2020 (item No 4) and data and accounting entries in IAs. Namely, examining the Contract Registers in CFCU and PWA as well as relevant accounting records, we determined that total contracted amount by the end of 2020 was the following:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Implementin g Agency/ Contracting Authority</th> <th style="text-align: center;">Total contracted amount EU contribution</th> <th style="text-align: center;">Total contracted amount National contribution</th> </tr> </thead> <tbody> <tr> <td>CFCU</td> <td style="text-align: right;">10.704.320,13</td> <td style="text-align: right;">1.888.997,64</td> </tr> <tr> <td>PWA</td> <td style="text-align: right;">66.970,65</td> <td style="text-align: right;">11.818,35</td> </tr> </tbody> </table>	Implementin g Agency/ Contracting Authority	Total contracted amount EU contribution	Total contracted amount National contribution	CFCU	10.704.320,13	1.888.997,64	PWA	66.970,65	11.818,35	<p>We recommend preparation and presentation data of total contracted amount in Annual Financial Reports on the basis of accurate data collected from Implementing Agencies/Contracting Authorities and exclusively related to the reference period for which Annual Financial Report is issued.</p>	<p><b>Status: Implemented</b></p> <p>According to the auditee’s response, submitted documentation and checks performed, we concluded that during preparation of AFR for 2021 NAO/DMS paid special attention to consistency of data recorded by the IA and presented under report. Namely, level of control of data provided and recorded by the IAs have been increased and double checks of data presented in diferent registers have been performed. In the future special attention will be given as well, in order to prevent similar mistakes in reporting process. Data presented in AFR for 2021 is consistent with data collected from Ias.</p> <p>Bearing in mind previously mentioned, we consider this finding closed.</p>	n/a	n/a
Implementin g Agency/ Contracting Authority	Total contracted amount EU contribution	Total contracted amount National contribution												
CFCU	10.704.320,13	1.888.997,64												
PWA	66.970,65	11.818,35												

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	<b>TOTAL</b>	<b>10.771.290,78</b>	<b>1.900.815,99</b>	<b>852.448,61</b>			
	<p>Therefore, differences between data presented in AFR for 2020 and data determined through testing and examination of relevant documentation in IAs are</p> <ul style="list-style-type: none"> <li>➤ EU contribution: 48.467,00 EUR;</li> <li>➤ National contribution: 8.553,00 EUR;</li> <li>➤ Other sources: -150,00 EUR.</li> </ul> <ul style="list-style-type: none"> <li>• We found that differences regarding EU and National contribution are related to service contract CFCU/MNE/083. In this case, contracted amount had been increased exactly for 57.020,00 EUR (EU 48.467,00 + 8.553,00 Nat) by signing Addendum No 2. However, this Addendum was signed on 15/01/2021 when it actually entered into force. When it comes to difference within other sources, we found that this amount is related to grant contract CFCU/MNE/166. The amount of contracted amount-other sources entered in CFCU's registers and accounting records is 9.012,02 EUR while in supporting tables for preparation of AFR we identified the amount of 8.862,02 EUR.</li> </ul>						
2	<p><b>Reported incorrectly amounts of costs recognised</b>  <i>Annual Financial Report for 2020, item No. 10</i>  <b>Level of Priority: Major</b>  <b>Body/-ies concerned by the finding: NAO/NF</b></p> <p>According to the Financing Agreement between the Government of the Montenegro and the Commission of the European Communities concerning the 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies, Annex II <i>General conditions</i>, Article 5 (5): „Cost recognised in the accounting system</p>		<p>We recommend preparation and presentation of the annual financial reports in a manner that total amount of costs recognised is consisted exclusively from the costs which are recorded in the accounting system as costs which have been incurred,</p>	<p><b>Status:</b>  <b>Implemented</b></p> <p>According to the auditee's response, submitted documentation and checks performed, we concluded that during preparation of AFR for 2021 NAO/DMS paid special attention to consistency of data recorded by the IA and presented under report. Data presented in AFR for</p>	n/a	n/a	

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<p><i>maintained under the section 4 of this Article must have been incurred, paid and accepted and correspond to actual costs proven by supporting documents and shall be used when appropriate to clear pre-financing paid by the IPA II beneficiary under local contracts.</i>“</p> <p>According to the Annual Financial Report for 2020 for 2015-2017 SOPEES, total costs recognised are reported as follows:</p> <ul style="list-style-type: none"> <li>➤ EU contribution: 1.302.498,09 EUR;</li> <li>➤ National contribution: 229.852,59 EUR;</li> <li>➤ Other sources: 0,00 EUR.</li> </ul> <p>Based on documentation obtained, desk checks performed, on-the-spot checks and substantive tests in Implementing Agencies/Contracting Authorities, we determined that data presented in AFR for 2020 (item No 10) contain certain amounts which, taking into account aforementioned provisions of Financing Agreements, could not be considered as costs recognised.</p> <p>During this audit engagement we performed checks of documentation regarding the payments made and cost recognition in 2020. We performed relevant checks whether reported recognised costs had been incurred, paid, accepted and correspond to actual costs proven by supporting documents.</p> <p>Analyzing the relevant registers and documentation in IAs and NF as well as accounting records and analytical card from bank account, we determined that total amount reported as costs recognised contain costs for two service contracts which were accepted by CFCU in December 2020 but these costs had not been paid in 2020. These accepted but yet not paid costs were clearly identified in CFCU’s evidences and accounting records.</p> <p>By examination and tests performed in CFCU and PWA, we determined the following total amounts of costs which, by the end of 2020, had been incurred, paid, accepted and correspond to actual costs proven</p>	<p>accepted, paid and correspond to actual costs verified by supporting documents. Costs which do not satisfy all of four mentioned conditions should not be presented as costs recognised.</p> <p>We recommend improving controls related to preparation of the annual financial reports in order to ensure providing complete and accurate annual financial reports.</p>	<p>2021 is consistent with data collected from IAs.</p> <p>Bearing in mind previously mentioned, we consider this finding closed.</p>		
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by supporting documents:					
<b>Implementing Agency/ Contracting Authority</b>	<b>Total costs recognised EU contribution</b>	<b>Total costs recognised National contribution</b>			
CFCU	1.072.803,09	189.318,19			
PWA	21.844,24	3.854,86			
<b>TOTAL</b>	<b>1.094.647,33</b>	<b>193.173,05</b>			
<p>Presented amounts have been properly entered into accounting records of CFCU and PWA and it can be clearly identified in their accounting system.</p> <p>Bearing in mind previously mentioned, differences between data reported in AFR for 2020 as costs recognised and data determined through testing and examination of relevant documentation in IAs and NF are:</p> <ul style="list-style-type: none"> <li>➤ EU contribution: 207.850,76 EUR;</li> <li>➤ National contribution: 36.679,54 EUR;</li> <li>➤ Other sources: -21.754,23 EUR.</li> </ul> <p>Reviewing and analyzing documentation related to cost recognition in CFCU and reconciling the results of these tests with information and supporting tables for preparation of AFR provided by NF, we determined that NAO reported costs in the amount of 244.530,30 EUR (EU part 207.850,76 + 36.679,54 Nat) as recognised although these costs had not been paid in the reference period (year 2020). Namely, we found that CFCU issued written approval for the second interim report of service contract CFCU/MNE/090 on 25/12/2020 in the amount 154.988,62 EUR (EU part 131.740,33 + 23.248,29 Nat). However, we determined that payment regarding this interim report was made in January 2021 (Payment order 40001614 from 21/01/2021). Also, for service contract CFCU/MNE/084 written approval on third interim report in the amount of 89.541,68 EUR (EU part 76.110,43 + 13.431,25 Nat) was issued by CFCU on 30/12/2020 but payment on</p>					

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	<p>this interim report was executed in February 2021 (Payment order 40012647 from 05/02/2021). Therefore, these costs are actually accepted but not paid and until the end of reference period (2020) did not satisfy all conditions prescribed by Financing Agreement to be considered as recognised. Furthermore, CFCU recorded these costs properly, i.e. as accepted but not paid.</p> <p>When it comes to difference within item „Total costs recognised-other sources“, we found that during 2020 CFCU issued written approvals for 8 grant contracts and recognised costs-other sources (financed from private contribution) in the total amount of 21.754,23 EUR. However, this amount was not presented and reported in AFR for 2020.</p> <p>Taking into account all previously mentioned, we consider that, in the process of preparation of Annual Financial Report for 2020, NF did not adequately use information and data from IAs’ registers and accounting records. This is because IAs properly differentiated „costs accepted but not paid“ from „costs recognised“ but in the AFR they were reported cumulatively as costs recognised.</p>				
3.	<p><b><i>Incorrect amount of “Total Open Pre-financing (National contribution)”</i></b></p> <p><b><i>Annual Financial Report for 2020, item No. 12</i></b></p> <p><b><i>Level of Priority: Intermediate</i></b></p> <p><b><i>Body/-ies concerned by the finding: NAO/NF</i></b></p> <p>According to the Annual Financial Report for 2020 for 2015-2017 SOPEES, Total Open Pre-financing was reported in amounts:</p> <ul style="list-style-type: none"> <li>➢ EU contribution: 4.230.376,46 EUR;</li> <li>➢ National contribution: 673.560,51 EUR;</li> <li>➢ Other sources: 0,00 EUR.</li> </ul> <p>Based on documentation obtained, desk checks</p>	<p>We recommend improving controls related to preparation of the annual financial reports in order to ensure providing complete and accurate annual financial reports. All relevant data, inter alia total open pre-financing, have to be adequately checked and reconciled with Implementing</p>	<p><b>Status: Implemented (preliminary)</b></p> <p>Based on auditees’ response and obtained documentation, we concluded that during preparation of AFR for 2021 NAO/DMS paid special attention to consistency of data recorded by the IA and presented under report. Close cooperation and communication with the IAs was present, as well, in order to</p>	n/a	n/a

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<p>performed, on-the-spot checks and substantive tests in Implementing Agencies/Contracting Authorities, we determined that amounts reported in AFR for 2020 (item No 12) do not completely match the data which we determined in Implementing Agencies..</p> <p>During this audit engagement we performed checks of documentation regarding the pre-financing payments made and cleared pre-financing through cost recognition in 2020. Analyzing the relevant registers and documentation in IAs and NF as well as accounting records and analitical card from bank account, we made recalculation of all payments made and costs recognised in order to determine the total amount of pre-financing payments made by IAs until the end of 2020 and the total amount of cleared pre-financings. The results are presented in the table below:</p>	<p>Agencies before entering it in annual financial reports.</p>	<p>provide accurate data. Double checks and reconciliation with IAs records were done for the purpose of preparation of AFR for 2021 and will be done in the future as well, taking care that no similar errors occur in the process of reporting.</p> <p>We consider that the recommendation is implemented in the sense of presentation of data in AFR for 2021 in line with data provided by IAs.</p> <p>Bearing in mind the finding from Audit of accounts for 2021, we will continue to monitor this issue in the upcoming period.</p>																		
<table border="1"> <thead> <tr> <th><b>Implementing Agency/ Contracting Authority</b></th> <th><b>Total pre-financing paid EU contribution</b></th> <th><b>Total pre-financing paid National contribution</b></th> <th><b>Total cleared pre-financing EU contribution</b></th> </tr> </thead> <tbody> <tr> <td>CFCU</td> <td>4.355.578,57</td> <td>768.631,51</td> <td>141.130,1</td> </tr> <tr> <td>PWA</td> <td>15.927,98</td> <td>2.810,82</td> <td>0,0</td> </tr> <tr> <td><b>TOTAL</b></td> <td><b>4.371.506,59</b></td> <td><b>771.442,33</b></td> <td><b>141.130,1</b></td> </tr> </tbody> </table>	<b>Implementing Agency/ Contracting Authority</b>	<b>Total pre-financing paid EU contribution</b>	<b>Total pre-financing paid National contribution</b>	<b>Total cleared pre-financing EU contribution</b>	CFCU	4.355.578,57	768.631,51	141.130,1	PWA	15.927,98	2.810,82	0,0	<b>TOTAL</b>	<b>4.371.506,59</b>	<b>771.442,33</b>	<b>141.130,1</b>				
<b>Implementing Agency/ Contracting Authority</b>	<b>Total pre-financing paid EU contribution</b>	<b>Total pre-financing paid National contribution</b>	<b>Total cleared pre-financing EU contribution</b>																	
CFCU	4.355.578,57	768.631,51	141.130,1																	
PWA	15.927,98	2.810,82	0,0																	
<b>TOTAL</b>	<b>4.371.506,59</b>	<b>771.442,33</b>	<b>141.130,1</b>																	
<p>Based on data presented within the previous table, we calculated Total Open Pre-financing and came to the following amounts:</p> <ul style="list-style-type: none"> <li>➤ EU contribution: 4.230.376,46 EUR;</li> <li>➤ National contribution: 746.537,02 EUR.</li> </ul> <p>According to the checks through financial and accounting records and performed calculation and by comparing the obtained results with data reported in AFR for 2020, we determined that amount of Total</p>																				

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	Open Pre-financing (EU contribution) was properly reported while Total Open Pre-financing (National contribution) was not reported correctly, i.e. it was presented less for 72.976,51 EUR than it actually is.			
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**Table 16**

➤ **Follow-up of Moore Stephens' Audit on information security (ICT)**

List of findings from the Report on DG Near ISO 27002 Audit – Montenegro (2017)					
No	Finding	Recommendation	Management Response	AA's proposal of status in February 2022	AA's proposal of new deadline for implementation
H1	<p><b>Minimum levels of acceptable information security not formally identified.</b></p> <p><b>Priority level: High</b></p> <p><b>Body/-ies concerned by the finding: All</b></p> <p>There was an inadequate definition and documentation of information security policies and procedures for IPA bodies. The IPA IT set of policies has not been based on a defined IPA IS strategy or assessment of IPA information security threats and was based on a general set of policies that did not reflect the actual roles and procedures being performed in the IPA IT environment. In Annex 1-Operational Procedures, forms such as SP1.00 and OC1.10 were referenced but there was no evidence that these forms were actually used by IPA bodies. Policies on end-user-oriented topics such as Acceptable Use of Internet and Acceptable Use of Email were missing, as were Clear Desk and</p>	<p>We recommend that a set of information security policies are defined, documented and published that address requirements created from a clear and concise information security strategy and the current and projected information security threat environment. They should contain statements concerning the definition of information security, objectives and principles to guide all activities relating to</p>	<p>Recommendation not implemented.</p> <p>Introduced as one of the measures (24) within Action Plan ISO 27002 adopted by the Government of Montenegro. Deadlines were not met and upgrade of the AP is expected during 1<sup>st</sup> half of 2022.</p> <p><i>E-1 Action plan ISO 27002</i></p>	<p><b>Status: Not implemented</b></p> <p>According to auditees' response, the recommendation is not implemented in the previous period. However, this issue is introduced as one of the measures (24) within Action Plan ISO 27002 adopted by the Government of Montenegro.</p> <p>We will monitor the implementation</p>	<p align="center">III Q 2022</p>

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	Clear Screen policies.	<p>information security and the assignment of roles and responsibilities and which, at a lower level, should be supported by topic-specific policies, including end-user-oriented topics such as the acceptable use of assets and clear desk/clear screen.</p> <p>These policies should be documented, approved and communicated to employees and relevant external parties in a form that is relevant, accessible and understandable to the intended reader.</p> <p>Each policy should be reviewed at planned intervals or when significant changes occur to ensure their continuing suitability, accuracy and effectiveness. Each policy should have an owner who has approved management responsibility for the development, review and evaluation of the policies.</p>			
<b>H2</b>	<p><b>No Information Security awareness education or training.</b></p> <p><b>Priority level: High</b></p> <p><b>Body/-ies concerned by the finding: all</b></p> <p>There is no information security awareness education or training and consequently, a low awareness of information security threats.</p>	<p>We recommend that all IPA staff and where relevant, IPA contractors, receive appropriate IS awareness education and training</p>	<p>Trainings are conducted continuously, through the Human Resources Administration. The trainings are conducted by MPADSM officials, as</p>	<p><b>Status: Partially implemented</b></p> <p>Based on auditees' response and obtained documentation, we consider that IPA structure is aware of importance of education and trainings related to</p>	<p>III Q 2022</p>

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		<p>and regular updates.</p> <p>An IS awareness programme should make staff aware of their responsibilities for security and the means by which those responsibilities are fulfilled. The IS awareness programme should be established in line with the IS policies and relevant procedures.</p> <p>The programme should also cover general aspects such as:</p> <p>a) management’s commitment to IS throughout the organisation;</p> <p>b) the need to become familiar with and comply with applicable rules and obligations, as defined in policies, standards, laws, regulations, contracts and agreements;</p> <p>c) basic IS procedures (such as IS incident reporting) and baseline controls (such as password security, malware controls and clear desks).</p>	<p>well as officials of the National CIRT, which is currently part of the Directorate for the Protection of Classified Information.</p> <p>Training Registers of the respective IPA bodies are available within organisation on specific AA request.</p> <p>Additional trainings will be conducted for IPA staff also during 2022 on the basis of the adopted IPA module of the Training plans in communication with HRMA.</p> <p><i>E-2 Training calendar Human Resources Administration</i></p> <p><i>E-3 Training program in the filed of IPA management</i></p>	<p>raising information security knowledge and awareness. In this context, IPA structure in close communication with MPADSM and HRA planned and organised during the previous period a number of trainings for IPA staff. Also, respective Training Plan for 2022 was developed and we will monitor it’s implementation.</p> <p>Bearing in mind previously mentioned, we consider this finding partially closed.</p>	
<b>H3</b>	<p><b>No information security policy for Third Party Service Suppliers.</b></p> <p><b>Priority level:</b> High</p> <p><b>Body/-ies concerned by the finding:</b> All</p> <p>There is no information security policy that defines the risks associated with the use of Third Party Suppliers, their responsibilities, requirements for</p>	<p>We recommend that a third party service provider policy is developed that identifies and mandates security controls to specifically address third party supplier access to IPA body systems and to ensure protection of IPA body assets.</p>	<p>Pursuant to the Law on Electronic Administration, the Decree on technical and other conditions for the use of the information and communication network and the manner of managing that network was drafted. There is something</p>	<p><b>Status: Not implemented</b></p> <p>We did not receive relevant and concrete evidences which prove that recommendation was adequately treated. Thus, we</p>	<p>III Q 2022</p>

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	<p>Third Party Service Providers to access IPA body systems, and service agreement security provisions such as data confidentiality.</p>		<p>in that regulation related to access to the Network by third parties. This decree was passed by the Government.</p> <p>Also, based on the WEU, the MPA adopted the Rulebook on Technical Conditions and Security Standards for Access to the Unified System for Electronic Data Exchange, which defines VPN access.</p> <p><i>E-4 Decree on the promulgation of the Law on Electronic Government</i></p> <p><i>E-5 Decree on technical and other conditions for the use of information and communication network and the manner of managing that network</i></p> <p><i>E-6 Rulebook on technical conditions and security standards for access to the unified system for electronic data exchange</i></p>	<p>consider this finding still open.</p>	
<b>H4</b>	<p><b>Inadequate documentation of IT Change Management.</b></p> <p><b>Priority level:</b> High</p> <p><b>Body/-ies concerned by the finding:</b> All</p> <p>There is insufficient definition and documentation of IT Change Management, the formal process for making changes to IT services. This is particularly</p>	<p>We recommend that a detailed Change Management Policy and Procedures are defined,</p>	<p>Not established and not functional. Measures will be undertaken under AP</p>	<p><b>Status: Not implemented</b></p> <p>According to auditees' response, the recommendation is not implemented in the previous</p>	<p>III Q 2022</p>

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	<p>important and relevant in view of the new custom SAP module being developed by a Third Party provider to replace the current Project and Accounting System (PIS) which is scheduled to be implemented in October 2016. While we believe, from interviews with key personnel involved in this project, that development of this new software is generally following good practices, there is no detailed documentation on how changes are to be assessed, the requirements for different types of changes, how changes are to be documented, tested, tracked and implemented, and the roles and responsibilities, in particular, of third party developers.</p>	<p>documented and published to increase awareness and understanding of the proposed changes and to ensure that they are made in a controlled way that minimises the impact on IPA body staff and services. We further recommend that a post implementation audit is considered following the implementation of the new SAP accounting module, which is critical to the IPA processes.</p>	<p>ISO 27002 implementation. See answer 1.</p>	<p>period. However, measures related to this issue will be undertaken under Action Plan ISO 27002. We will monitor the implementation.</p>	
<p><b>H5</b></p>	<p><b>Desktops with unsupported operating systems.</b>  <b>Priority level:</b> High  <b>Body/-ies concerned by the finding:</b> CFCU and Public Works Administration (former Directorate for Public Works)</p> <ul style="list-style-type: none"> <li>Desktops were found that were running Windows XP, an operating system that is no longer supported by Microsoft, increasing the risk of a security breach of IPA body systems. This was a finding in a previous audit of the CFCU. In the CFCU, the desktop with Windows XP was used to archive emails going to the special CFCU email address which, like other user email addresses, was allocated a limited amount of space.</li> </ul>	<p>We recommend that these desktops are replaced with systems running a currently supported operating system, such as Windows 7 or higher.</p>	<p>All operating systems are at the moment monitored and currently running the newest versions.</p> <p>All desktops within the CFCU are running Windows 7 and Windows 10 operating systems, in other words, there is no increased risk of a security breach of IPA body systems. CFCU is at disposal for further checks in this respect.</p> <p>All operating systems in PWA are currently running the newest versions such as Windows 10 (Pro, Enterprise).</p> <p><i>E-7 Proof that adequate operating systems are installed on the computers of IPA employees attached</i></p>	<p><b>Status: Implemented</b></p> <p>Based on auditees' response, enclosed evidences and OTS checks which we performed in IPA bodies, we determined that all checked desktops are with supported operating systems (Windows 10 Pro).</p> <p>We consider this recommendation implemented and finding closed.</p>	<p align="center">n/a</p>

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<p><b>H6</b></p>	<p><b>No Business Continuity Plan (BCP) or Disaster Recovery Plan (DRP).</b>  <b>Priority level:</b> High  <b>Body/-ies concerned by the finding:</b> All</p> <p>Whilst there were policies that required Business Continuity and/or a Disaster Recovery Plans, we found no evidence that actual plans had been documented and published. This was also a finding in a previous audit.</p> <p>A BCP is an essential part of an organisation's response planning. It sets out how the entity will operate following an incident and how it expects to return to 'business as usual' in the quickest possible time afterwards. The DRP describes the plans for recovering the IT systems.</p>	<p>We recommend that Business Continuity and Disaster Recovery Plans are defined, documented and published, and that they are reviewed and tested at least annually.</p> <p>In order to develop these plans, a formal Business Impact Analysis will need to be conducted to determine the critical operations and systems and to agree appropriate recovery times which will meet the needs of each IPA entity.</p>	<p>Not established on the Government level. Measures will be undertaken under AP ISO 27002 implementation. See answer 1.</p>	<p><b>Status: Not implemented</b></p> <p>According to auditees' response, the recommendation is not implemented in the previous period. However, measures related to this issue will be undertaken under Action Plan ISO 27002. We will monitor the implementation.</p>	<p align="center">III Q 2022</p>
<p><b>H7</b></p>	<p><b>There is no Removable Media Policy.</b>  <b>Priority level:</b> High  <b>Body/-ies concerned by the finding:</b> All</p> <p>Removable media is defined as devices or media that is readable and/or writable by the end user and are able to be moved from computer to computer without modification to the computer. Removable media is a well-known source of malware infections and has been directly tied to the loss of sensitive information in many organisations.</p>	<p>We recommend that a Removable Media policy is created and included in the set of IPA body Information Security Policies to help protect against the introduction of viruses and the loss of sensitive data.</p>	<p>There is no official policy governing this area exclusively.</p> <p>The development of this and similar procedures is planned.</p> <p>Measures will be undertaken under AP ISO 27002 implementation. See answer 1.</p>	<p><b>Status: Not implemented</b></p> <p>According to auditees' response, the recommendation is not implemented in the previous period. However, measures related to this issue will be undertaken under Action Plan ISO 27002. We will monitor the implementation.</p>	<p align="center">III Q 2022</p>

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<p><b>H8</b></p>	<p><b>There are no policies and procedures on the use of offices outside government buildings.</b></p> <p><b>Priority level:</b> High</p> <p><b>Body/-ies concerned by the finding:</b> Ministry of Economic Development (former Ministry of Labour and Social Welfare)</p> <p>Seven out of eight of the IPA team are accommodated in a separate building in rented offices that are not part of the Ministry of Labour and Social Welfare (MLSW) government building. Only the Head of the IPA body is in the MLSW building and has a workstation connected to the government network and can use resources from the network (IPA portal and Origami Document Management System). The other IPA employees have a separate direct connection to the Internet that is not protected by a firewall or Intrusion Detection software, they are not part of the government Active Directory structure for user accounts, and have the rights to modify computer-wide settings, to install drivers, and to run (or install) non-certified program on their desktops. This practice does not comply with IPA body information security policies and procedures</p>	<p>We recommend that the IPA Information Security policies and procedures are updated to regulate the use of offices outside of official government buildings and local user accounts and that the policies and procedures are enforced. We also recommend implementation of an ICT solution to connect the network in the separate building to the government active directory structure and adequate network security</p>	<p>New offices and premises have been equipped and occupied by the former MLSW staff which become part of the PIU of the Ministry of Economic Development in 2021. PIU of the Ministry of Economic Development is located at the main building and has a workstation connected directly to the government network and can use resources from the network (IPA portal and Origami Document Management System).</p>	<p><b>Status: Not implemented</b></p> <p>According to auditee’s response and checks performed, we found that PIU of former MLSW is now the part of PIU in MED and is located at the main building with a workstation connected directly to the government network and can use resources from the network.</p> <p>However, the recommendation is related to updating the IPA Information Security policies in order to regulate the use of offices outside of official government buildings and local user accounts and that the policies and procedures are enforced. We did not receive relevant and concrete evidences which prove that recommendation was adequately treated. Thus, we consider this finding still open.</p>	<p align="center">III Q 2022</p>
<p><b>H9</b></p>	<p><b>Third party service provider use of remote access is not documented.</b></p> <p><b>Priority level:</b> High</p> <p><b>Body/-ies concerned by the finding:</b> NAOSO/NF/CFCU and PWA (former DPW)</p> <p>Third party service providers use remote access to maintain and support the MIST network and Ministry of Finance and DPW domains (sub networks) and servers but this is not documented.</p>	<p>We recommend that IPA Bodies and Ministries allowing remote access activities issue a policy that</p>	<p>Communication and cooperation have been defined by the Government authorities in charge for this field. All activities in this respect have been carried out by the line ministry in charge for system and information security. Please see duties and obligation of the</p>	<p><b>Status: Not implemented</b></p> <p>We did not receive relevant and concrete evidences which prove that recommendation was adequately treated. Thus, we consider this finding still open.</p>	<p align="center">III Q 2022</p>

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		defines the conditions and restrictions for such access.	ministry in charge for these affairs. <i>E-8 Decree on the organization and manner of work of the state administration</i>		
<b>M1</b>	<p><b>No Information Classification</b> <b>Priority level: Medium</b> <b>Body/-ies concerned by the finding: All</b></p> <p>Information classification provides staff who deal with sensitive data with a concise indication of how to handle and protect it. Grouping information with similar protection needs and specifying information security procedures that apply to all the information in each created group facilitates this and reduces the need for case-by-case risk assessment and custom design of controls.</p> <p>We noted that there is no classification of information in terms of its importance to the IPA bodies.</p>	<p>We recommend that information is classified in terms of legal requirements, value, critically and sensitivity to unauthorised disclosure or modification.</p> <p>We also recommend that the NAO should draft an information classification policy for IPA bodies. This will enable appropriate consistency of information classification to be applied to all IPA bodies.</p> <p>The classification scheme should include conventions for classification. The level of protection should be assessed by analysing confidentiality, integrity and availability and any other requirements for the information considered. Each level should be given a name (e.g. ‘Confidential’, ‘Sensitive’, ‘Internal’, ‘Public’, etc.) that is relevant in the context of the classification scheme</p>	<p>This part of the license is issued by the Directorate for the Protection of Classified Information. The officials in charge of classifying information in the institution must first pass a check with the National Security Agency, on the basis of which the Directorate for Data Protection issues a permit.</p> <p>IPA entities are following regulations and bylaw acts in force on the level of state administration.</p> <p>No specific classification of the respective IPA information has been prescribed under referent IPA procedures.</p>	<p><b>Status: Not implemented</b></p> <p>Accordnig to auditee’s response, no specific classification of the respective IPA information has been prescribed under referent IPA procedures.</p> <p>We consider that recommendation was not adequately treated. Thus, this finding remains open.</p>	IV Q 2022

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<p><b>M2</b></p>	<p><b>Inadequate Asset Management.</b>  <b>Priority level: Medium</b>  <b>Body/-ies concerned by the finding: All</b></p> <p>An asset is anything that has value to the organisation and which therefore requires protection. Asset identification should be performed at a suitable level of detail that provides sufficient information for the risk assessment.</p> <p>At the time of our audit, we noted that there is an inadequate inventory of assets in the IPA bodies. While IPA body users do sign a paper form certifying ownership of a desktop that is retained, these signed paper forms do not give an easily available and understandable inventory of an IPA body assets. The IPA IT Policy states that one of the duties of an IT Coordinator is 'Keeps a detailed record of all IPA Body's equipment, its age and condition' but we found that this was not the case in practice.</p>	<p>We recommend that an electronic inventory of assets be created for each IPA body that includes both equipment, information assets and information processing facilities so that the appropriate protection can be identified and provided to each of these assets. Owners should be assigned to the assets and the acceptable use of information and equipment be defined.</p>	<p>Line ministry has prepared a Rulebook on the conditions that must be met by facilities, i.e. spaces for accommodation and operation of computer and communication equipment.</p> <p>Additional measures will be undertaken under AP ISO 27002 implementation. See answer 1.</p> <p><i>E-9 Rulebook on the conditions that must be met by facilities, ie spaces for accommodation and functioning of computer and communication equipment</i></p>	<p><b>Status: Partially implemented</b></p> <p>Based on auditees' response and obtained documentation, we consider that IPA structure and line ministry undertook initial steps in resolving this issue. Namely, a Rulebook on the conditions that must be met by facilities, i.e. spaces for accommodation and operation of computer and communication equipment has been prepared and additional measures to be implemented were planned under AP ISO 27002.</p> <p>We will monitor the full implementation of recommendation.</p>	<p align="center">IV Q 2022</p>
<p><b>M3</b></p>	<p><b>Backup and Restore policies and procedures are inadequately defined.</b>  <b>Priority level: Medium</b>  <b>Body/-ies concerned by the finding: All</b></p> <p>There are defined and documented backup and restore policies and procedures but they are very general and do not reflect which backups are actually being performed. For example, the IPA Project and Accounting System is on a server in the Ministry of Finance server room. A full backup to disk is performed daily by a third party service provider to another server in the same server room and only the most recent backup is retained but this</p>	<p>We recommend that backup and restore policies are defined, documented and published to reflect current procedures being followed in IPA bodies. They should include application, user desktop and shared drive backups.</p>	<p>Different back-up modules have been created through IPA entities. This finding is also part of the separate audits conducted by AA where national IPA authorities have already provided comprehensive answers and follow-up.</p>	<p><b>Status: Not implemented</b></p> <p>Based on auditees' response, obtained documentation and checks performed, we found that IPA bodies created different back-up modules. Namely, IPA staff are currently using Share folder systems, in order to maintain all relevant data and documents. Once per week, most of them stores all data from the</p>	<p align="center">IV Q 2022</p>

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	<p>does not appear anywhere in the backup and restore policies and procedures. We learned that the IPA Portal is not backed up at all. The Audit Authority is primarily responsible for ensuring that audit data on user systems is not lost but this is not clear from its backup policy and procedures.</p>		<p>Upgrade of the referent IPA procedures will be conducted upon implementation of the measures predicted by the AP ISO 27002.</p>	<p>Shared folder on external hard disk, which was recently purchased. Certain IPA bodies purchased internal servers for storing data. However, permanent “centralized” solution regarding general IT security will be resolved by implementing Action plan ISO 27002. Bearing in mind that IPA procedures have not been upgraded yet, we will monitor the implementation of recommendation.</p>	
<b>M4</b>	<p><b>There is no current service agreement with a third party service provider.</b></p> <p><b>Priority level:</b> Medium</p> <p><b>Body/-ies concerned by the finding:</b> Public Works Administration (former Directorate for Public Works)</p> <p>The Audit Authority does not have a current service agreement with the third party provider that hosts its website to which audits for viewing by the public are posted. In addition, the Directorate for Public Works (DPW) does not have a current service agreement with its local partner to provide IT services.</p>	<p>We recommend that updated service agreements with the providers be obtained as soon as possible.</p>	<p>Not established and not functional. Measures will be undertaken under AP ISO 27002 implementation. See answer 1.</p>	<p><b>Status: Not implemented</b></p> <p>According to auditees’ response, the recommendation is not implemented in the previous period.</p> <p>We will monitor the implementation</p>	<p>IV Q 2022</p>
<b>M5</b>	<p><b>There are no documented policies or procedures for Vulnerability Scanning.</b></p> <p><b>Priority level:</b> Medium</p> <p><b>Body/-ies concerned by the finding:</b> All</p> <p>Vulnerability scanning is an important and</p>	<p>We recommend that a Vulnerability Scanning Policy is defined, documented, published and included in the IPA Information Security set of policies. This policy should</p>	<p>Not established and not functional. Measures will be undertaken under AP ISO 27002 implementation. See answer 1.</p>	<p><b>Status: Not implemented</b></p> <p>According to auditees’ response, the recommendation is not implemented.</p>	<p>IV Q 2022</p>

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	necessary component of information security policies and procedures in which devices connected to the network are probed in an attempt to identify security-related issues. However, there is no defined and documented process for vulnerability scanning in IPA bodies.	include a list of devices subject to vulnerability scanning and which body will perform the vulnerability scans		We will monitor the implementation of recommendation.	
<b>M6</b>	<p><b>Physical Security is inadequate.</b></p> <p><b>Priority level:</b> Medium</p> <p><b>Body/-ies concerned by the finding:</b> NAOSO/NF/CFCU</p> <p>The perimeters of a building or site containing information processing facilities or sensitive data should be physically sound (i.e. there should be no gaps in the perimeter or areas where a break-in could easily occur). The exterior doors should be suitably protected against unauthorised access (e.g. locks) and doors and windows should be locked when unattended.</p> <p>At the time of our audit, we noted that the door to the offices of the NAOSO, NF, and CFCU is secured by card key but was observed to be often left open at certain times, such as in the morning. Since a clear desk policy was not observed and a bin containing documents to be recycled is accessible on the balcony, an individual could enter the offices and obtain sensitive documents.</p>	We recommend that the door to the offices is kept shut and accessible only by card key, and that clear desk and clear screen policies are followed	Conducted. Meanwhile, new secured and protected premises have been occupied by NAOSO/NFD/CFCU.	<p><b>Status: Implemented</b></p> <p>Based on auditees' response and OTS checks which we performed in NAOSO/NF and CFCU, we determined that these IPA bodies have secured and protected premises. The exterior doors are suitably protected against unauthorised access and the security porter is present all the working time. He controls entrance into the premises and have an adequate evidences.</p> <p>We consider this recommendation implemented and finding closed.</p>	n/a
<b>M7</b>	<p><b>Wireless Network is not separate from the core government network.</b></p> <p><b>Priority level:</b> Medium</p> <p><b>Body/-ies concerned by the finding:</b> Ministry of Ecology, Spatial Planning and Urbanism (former</p>	We recommend that MSDT implement controls to better	Logging on wireless networks is now protected from unauthorised access by the encrypted password	<p><b>Status: Partially implemented</b></p> <p>Based on auditees' response and checks performed, we found that</p>	IV Q 2022

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	<p>Ministry of Sustainable Development and Tourism)</p> <p>Guests and mobile phone users can log on to the wireless network in this Ministry. This wireless network is restricted by the use of a password but it is not separated from the government network and not regularly monitored. This increases the risk of unauthorised access to the government network.</p>	<p>protect networks and connected services from unauthorised access. One such method of managing the security of the network is to divide the network into separate network domains. The domains can be segregated either physically or logically (e.g. virtual private networking). Appropriate logging and monitoring should be applied to enable recording and detection of actions that may affect, or are relevant to IS</p>	<p>in place. However, specific controls to better protect networks and connected services from unauthorised access have not been performed adequately. Complete and comprehensive changes of the wi-fi infrastructure should be completed and this will be part of the specific security measures under implementation of the AP ISO 27002.</p>	<p>logging on wireless networks is now protected from unauthorised access by the encrypted password in place. However, this is not the adequate and permanent solution to resolve this issue. Complete and comprehensive changes of the wi-fi infrastructure should be completed and this will be part of the specific security measures under implementation of the AP ISO 27002. We will monitor the full implementation of recommendation.</p>	
<p><b>M8</b></p>	<p><b>No review of Antivirus logs.</b></p> <p><b>Priority level: Medium</b></p> <p><b>Body/-ies concerned by the finding: All</b></p> <p>Whilst up to date Antivirus software was observed to be on all systems and is centrally managed by the government Ministry of Information Society and Telecommunications (MIST), there was no evidence of regular reviews of Antivirus logs/events.</p> <p>Reviewing Antivirus logs is an important control to identify and analyse the reasons for AV infections. Antivirus software logs the cases where malicious software was detected but not cleaned (for various reasons) and any Antivirus update failures, all of which are important to know about to ensure that Antivirus protection is current.</p>	<p>We recommend that standard scheduled scans are configured on the Antivirus software for all systems and that Antivirus logs/events are regularly reviewed by MIST and IPA body IT Coordinators.</p> <p>Logs/events containing sensitive data or personally identifiable data should be stored in line with the information classification policy. These logs/events should be protected against tampering and unauthorised access.</p>	<p>MPADSM as the authority in charge of managing the entire network of authorities has the ability to view all antivirus logs.</p> <p>National IPA institutions are managing everyday activities under protected antivirus systems and malware protections.</p> <p>Please see prescribed duties and obligations of the referent ministry in charge.</p> <p><i>E-8 Decree on the</i></p>	<p><b>Status: Not implemented</b></p> <p>We did not receive relevant and concrete evidences (Reports from MPADSM on scans performed, Protection status reports, etc) which prove that recommendation was adequately treated. Thus, we consider this finding still open and will monitor the implementation.</p>	<p align="center">IV Q 2022</p>

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			<p><i>organization and manner of work of the state administration</i></p> <p>Internal documents related to the logs and scanning are available on the basis of the specific request and can be shared as protected information for the institution concerned.</p>	
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*Table 17*

➤ ***Follow-up of BDO’s Audit on Internal Audit Capacities (IAC) in the context of Internal Control Framework under the Instrument for Pre-Accession (IPA II)***

<b>List of findings from the Final Report on Ad Hoc Audit on Internal Audit Capacities in the context of Internal Control Framework under the Instrument for Pre-Accession (IPA II) (February, 2019)</b>					
<b>No</b>	<b>Finding</b>	<b>Recommendation</b>	<b>Management Response</b>	<b>AA’s proposal of status in February 2022</b>	<b>AA’s proposal of new deadline for implementa</b>
<b>IAC1</b>	<p><b>Demonstrating independence and objectivity.</b></p> <p><b>Priority level: High</b></p> <p><b>Body/-ies concerned by the finding:</b> Ministries and the CHU</p> <p>Compliance with the independence and objectivity requirements of Standard 1100 is conventionally achieved through an Audit Committee, which reviews, challenges and approves the internal audit remit and outputs, and which ensures that internal audit is free from the influence of those being</p>	<p>Ensure that the internal audit activity can report its plans, activities and outcomes, and which will help demonstrate that the auditors are fully independent from the Minister / Commissioner, and from the Ministry / Commissariat.</p> <p>Invite the head of audit, or, in the absence of a head of audit, an</p>	<p>Beside reporting to the head of the subjects, internal audit units report their activities and outcomes to Central Harmonization Unit (CHU) which is coordinating body for development of internal audit in public sector of Montenegro. In line with the article 29 of Law on governance and internal</p>	<p><b>Status:</b></p> <p><b>Partially implemented</b></p> <p>Based on auditees’ response and obtained documentation, it is evident that some progress has been made regarding involvement of IAUs at periodic senior management meetings. According to the information</p>	

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	<p>audited and that internal auditors are fully objective in the execution of their work. There is no specific entity within any of the Ministries or Departments performing this role, and auditors report directly to the Minister or Commissioner, who is also their line manager for performance appraisal purposes. Regular access to senior management varied between Ministries: generally, internal auditors are not regarded as being members of senior management and do not attend senior management meetings. All audit staff whom we interviewed were adamant that they had never felt any undue influence or pressure to amend the contents of their reports, and stated they had sufficient access to the Minister or Commissioner for the purposes of their work. We were also made aware of examples where internal auditors report to the NAO and CHU, which provides an alternative mechanism for mitigating the risk of undue influence. Nevertheless, these reporting arrangements could potentially compromise auditors' independence in planning and performing their work.</p>	<p>appropriately senior and qualified internal auditor, to attend periodic senior management meetings and present key audit documents such as the annual audit plan, the mid-year report and the annual report.</p>	<p>controls in public sector (attached), the head of the entity shall submit to the Ministry an annual report on the work of the internal audit, execution of the annual internal audit plan with data on limitations in scope and resources if there were any limitations in the audit process.</p> <p>In Annual Consolidated Report on Governance and Internal Controls in Public Sector for 2018 which was adopted by Government at its session held on June 27th, 2019, Government of Montenegro obliged the users of the budget of Montenegro, which have established the Internal Audit Unit and the appointed Head of the Unit to enable them to attend meetings of senior management when resolving issues important for the work of internal audit and to inform the Ministry of Finance no later than at the end of 2019. (Conclusion number 6 attached). Based on the latest prepared Consolidated report for 2020 (attached), 71.9% of the heads of the Internal</p>	<p>provided in Consolidated report for 2020, respective percentage of heads of the IAUs attend senior management meetings. Taking this into account, we consider this finding partially closed and emphasize that all IAUs should be encouraged and empowered to attend senior management meetings and present key audit documents.</p> <p>We will monitor the further implementation the recommendation.</p>	<p align="center">IV Q 2022</p>
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			Audit Units attends senior management meetings when issues important for the work of internal audit are resolved.		
<b>IAC2</b>	<p><b>Developing and ensuring proficiency.</b></p> <p><b>Priority level: High</b></p> <p><b>Body/-ies concerned by the finding: Ministries and the CHU</b></p> <p>Although there has been a gradual shift towards risk-based auditing, the focus is still on compliance and operational risks, rather than more strategic risks. Fraud and governance risks are not routinely identified (neither auditors nor clients recognised this as a problem in the survey (Annex G, questions 13.10 and 29.23 and Annex H, question 27.22 respectively) and no use is made of technology-based audit (identified as a weakness by auditors (Annex G, questions 12.9 and 30.34) and non-IPA clients (Annex H, question 26.21)). Auditors do not currently have the understanding or training to address these weaknesses, although three IT auditors are being trained. Audit clients in the surveys did comment on auditors' dedication, enthusiasm and commitment to learning and improving their knowledge (Annex H, question 37.31).</p>	<p>Provide practical support and advice in the manual and via workshops, in order to enable auditors to make the most of the new, COSO-based planning tool, improving the emphasis on more strategic, governance and fraud risks.</p>	<p>Within Programme of continuous education of internal auditors, Ministry of Finance in cooperation with Human Resource and Management Agency organized and delivered following trainings::</p> <p>a) in December 2019 trainings on topic "Governance audit in public sector and introduction of by-laws" were held for four group of internal auditors (attendance sheets attached)</p> <p>b) in 1st quarter of 2020, trainings on topic "New methodology of internal audit work in the public sector" were held for four groups of internal auditors. (attendance sheets attached)</p> <p>c) in 2nd quarter of 2020, trainings on topic "Update of internal audit plans caused by the COVID virus pandemic and practical instructions" were held for four groups of internal</p>	<p><b>Status: Implemented (preliminary)</b></p> <p>Based on auditees' response and obtained documentation, we found that internal auditors in public sector received a number of respective trainings and education programmes with the aim of developing and ensuring proficiency. According to the evidences enclosed, significant number of internal auditors attended these trainings and workshops. Some of trainings and workshops were related to strategic planning of internal audit and development of strategic plans in accordance with the new methodology of internal auditors. In this context, we consider that progress have been made and CHU undertook appropriate activities in order to enable internal auditors to improve their knowledge and practical experiance.</p> <p>However, this should be further improved and upgraded and we</p>	<p>IV Q 2022</p>

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			<p>auditors. (attendance sheets attached)</p> <p>d) in 4th quarter of 2020, trainings on topic “Strategic planning of internal audit and development of strategic plans in accordance with the new methodology of internal auditors” were held for four groups of internal auditors. (attendance sheets attached)</p> <p>e) in 4th quarter of 2020, trainings on topic “Development of an annual internal audit plan and practical application of the Standard 2100 group ” were held for four groups of internal auditors. (attendance sheets attached)</p> <p>These trainings, beside others addressed this finding.</p>	will monitor it in the upcoming period.	
<b>IAC3</b>	<p><b>Quality assurance and improvement</b></p> <p><b>Priority level: High</b></p> <p><b>Body/-ies concerned by the finding:</b> Ministries and the CHU</p> <p>Other than supervision of audit assignments, there is no quality assurance and improvement programme in place. Satisfaction questionnaires have been developed but have yet to be used.</p>	Develop a quality assurance and improvement programme that covers both internal and external assessments of the quality of the IACs’ work. It must include arrangements for full reporting of	Ministry of Finance updated methodology of work of internal auditors and methodology is prescribed within Rulebook on methodology of work of internal audit in public sector (“Official Gazette of Montenegro“ no. 001/20) (attached) which was adopted in December 2019. Within	<p><b>Status: Implemented (preliminary)</b></p> <p>According to the auditees’ response and obtained documentation, we found that improvements have been made in this field. According to the information provided in Consolidated report for 2020,</p>	

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		<p>the results and monitoring of subsequent action plans.</p>	<p>Rulebook, Ministry of Finance prepared comprehensive checklist for self assessment (table 6 of Rulebook). This checklist can be used by external assessors as well. It is planned that internal audit units do self assessment which should be validated by external assessors.</p> <p>Based on the latest prepared Consolidated report for 2020 (attached), 75.8% of internal audit units prepared Quality Assurance and Improvement Program which includes requirements for both internal and external assessments, while 59,4 performed internal assessment.</p> <p>During 2021, within the project "Improvement of Budgeting System, Multi-annual Budget Framework and Public Internal Financial Control System" two workshops on topic "Mutual external assessment of internal audit" were held for 11 internal auditors.</p> <p>In November – December</p>	<p>respective percentage of IAUs prepared Quality Assurance and Improvement Program. Also, some workshops related to quality assurance and assessment of internal audit had been conducted during the previous period. Taking this into account, we consider this finding mainly closed and propose reducing the priority level from high to medium.</p> <p>Anyway, adopted Rulebook and developed checklists for self assessment should be further used in practise and than validated by external assessors.</p> <p>We will monitor the implementation of the recommendation.</p>	<p align="center">n/a</p>
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			2021, within Programme of continuous education of internal auditors, Ministry of Finance in cooperation with Human Resource and Management Agency organized and delivered following training “Quality assurance of internal audit” for four groups of internal auditors. (attached are attendance sheets).	
<b>IAC4</b>	<p><b>Strategic risk-based planning</b></p> <p><b>Priority level: High</b></p> <p><b>Body/-ies concerned by the finding:</b> Ministries and the CHU</p> <p>Strategic (three year) and annual audit plans are developed by identifying the audit universe and then risk appraising it across a number of dimensions, in a way that is common to many internal audit functions. However, the identification of the audit universe is system/process-driven and a large number of operational activities are included. It does not rather start by considering Ministries’ strategies, objectives and risks, or trends and emerging issues. This would result in fewer, higher-level but strategically important areas being included in the audit universe. Such a shift in focus would probably result in a more fluid audit plan and planning over a three-year period might no longer be appropriate.</p>	<p>Shift the focus of strategic (annual) audit planning to consider each Ministry’s key business objectives and risks for that year.</p>	<p>Within Programme of continuous education of internal auditors, Ministry of Finance in cooperation with Human Resource and Management Agency organized and delivered following trainings:</p> <p>a) in Oct-Nov 2019 trainings on topic " Strategic and annual planning of internal audit " were held for four group of internal auditors</p> <p>b) in 4th quarter of 2020, trainings on topic “Strategic planning of internal audit and development of strategic plans in accordance with the new methodology of internal auditors" were held for four groups of internal auditors. (attached in IAC 2)</p> <p>c) in 4th quarter of 2020, trainings on topic</p>	<p><b>Status:</b></p> <p><b>Partially implemented</b></p> <p>On the basis of documentation gathered and information provided by auditees’, we concluded that this finding was properly treated during the previous period. The Rulebook on methodology of work of internal audit in public sector was updated in a manner that ensures addressing this finding. Also, some education trainings and workshops related to strategic risk-based planning were organised. Taking this into account, we consider this finding mainly closed and propose reducing the priority level from high to medium.</p> <p>We will monitor the implementation of the strategic audit planning through</p>

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			<p>“Development of an annual internal audit plan and practical application of the Standard 2100 group ” were held for four groups of internal auditors. (attached in IAC2)</p> <p>To address this finding, Ministry of Finance updated methodology of work of internal auditors and methodology is prescribed within Rulebook on methodology of work of internal audit in public sector (“Official Gazette of Montenegro“ no. 001/20) which was adopted in December 2019 (attached in IAC3).</p>	<p>reviewing the annual audit plans for upcoming period.</p>	
<b>IAC5</b>	<p><b>Recruitment and retention.</b></p> <p><b>Priority level: High</b></p> <p><b>Body/-ies concerned by the finding:</b> Ministries</p> <ul style="list-style-type: none"> <li>There is an acknowledged problem with recruiting and retaining audit staff and many of the audit teams reviewed have carried vacancies for some time. Audit plans are developed around available resources and the limitations placed on potential coverage by vacancies are not always made clear to senior management. The previous experience required of auditors limits recruitment to those who have either an economics or a legal</li> </ul>	<p>Highlight to senior management the limitations placed on audit plans because of the lack of resources.</p> <p>Consider alternative employment models, for example, short-term secondments as part of broader management training.</p> <p>Broaden the educational requirements/skill sets for auditors, focussing on their ability</p>	<p>In line with the article 29 of Law on governance and internal controls in public sector (attached in IAC1), the head of the entity shall submit to the Ministry an annual report on the work of the internal audit, execution of the annual internal audit plan with data on limitations in scope and resources if there were any limitations in the audit process.</p> <p>Alternative employment models, for example, short-term secondments as part</p>	<p><b>Status:</b></p> <p><b>Partially implemented</b></p> <p>According to the auditees’ response, obtained documentation and interviews conducted, we consider that IPA structure is aware of importance of having effective internal audit function. Centralised Internal Audit Unit responsible for audit of EU funds has been established within MFSW and until now two internal auditors, who are fluent in English and specialized on IPA regulation and procedures,</p>	<p>IV Q 2022</p>

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	<p>background, greatly reducing both the pool of potential candidates and the skills, knowledge and experience that are brought into internal audit. Some auditors have poor or no English, making them ineffective in carrying out IPA audits. The auditor survey (Annex G, question 36.29) reiterated the concerns expressed in interviews regarding resources.</p>	<p>to audit rather than on qualifications. Appointing auditors with project management skills would be a useful resource for IPA auditing.</p> <p>Increase English language skills in audit teams so that those working on IPA issues are able to do so effectively.</p>	<p>of broader management training were consider but is not allowed in line with Montenegrin legislative framework for this area.</p> <p>Based on Decree on establishment of internal audit in public sector (“Official Gazette of Montenegro“ no. 070/19) and later Decree from 2021 (both attached), separate centralized IPA internal audit unit within Ministry of Finance and Social Welfare was established in August 2020 by Rulebook on internal organization and systematization of Ministry of Finance and Social Welfare. (attached). Currently there are two position fulfilled (Head of Department and Senior Internal Auditor who are fluent in English and specialized on IPA regulation and procedures.</p>	<p>have been nominated. Bearing in mind activities already undertaken in the previous period, as well as the activities planned for the upcoming period, it can be concluded that functional and operational capacities of Department in charge for audit of EU funds provides assurance for effective and efficient internal audit of EU funds. Ministry of Finance and Social Welfare considered mechanism of engagement of one more internal auditor with significant experience and it is expected that this issue will be resolved in II Q 2022. Additionally, training plan for 2021 for internal auditors have been approved and signed and properly realized. IAU staff are continuously attending thematic audit seminars. There is developed Plan of continuously performance of trainings for 2022 for IAU staff. In 2021, IAU for EU funds performed 2 audits in CFCU and PWA and 1 audit in the Ministry of Capital Investments. Annual plan for 2022 has been properly developed and signed by IAD for EU funds.</p> <p>Taking into account all previously mentioned, it is evident that some progress was made in the previous period in</p>	
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				<p>resolving the issues related to this finding.</p> <p>We consider that the recommendation is partially implemented and we will monitor the full implementation of recommendation, i.e. effective and efficient functioning the internal audit of EU funds.</p>	
IAC6	<p><b>Policies and procedures</b></p> <p><b>Priority level: High</b></p> <p><b>Body/-ies concerned by the finding:</b> The CHU</p> <p>A new method of planning individual audits (which uses the COSO model to identify risks) has recently been introduced into the internal audit function. This more structured approach is welcome, as it has increased the focus on risk but only a few audits have been undertaken using this methodology (and none of these are IPA audits). Auditors are still learning how to apply the approach: whilst some auditors are confident, others want more support and guidance on its practical implementation. The audits that we reviewed that had used the new methodology only identified operational risks and did not reflect the emphasis that COSO and the Standards place on strategic matters, especially governance, risk management and controls. In particular, audits should support improvement of governance and risk management processes, including:</p> <ul style="list-style-type: none"> <li>• Making strategic and operational</li> </ul>	See IAC 2	See IAC 2 response	<p>See proposal of status (conclusion) for IAC2.</p>	See proposal for new deadline for IAC2.

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	<p>decisions;</p> <ul style="list-style-type: none"> <li>• Overseeing risk management and control;</li> <li>• Promoting appropriate ethics and values within the organisation;</li> <li>• Ensuring effective organisational performance management and accountability;</li> <li>• Communicating risk and control information; and</li> </ul> <p>Co-ordinating activities of the board, auditors, other assurance providers and management.</p>				
<b>IAC7</b>	<p><b>Improving Governance Arrangements.</b></p> <p><b>Priority level: High</b></p> <p><b>Body/-ies concerned by the finding:</b> Ministries</p> <p>None of the IACs reviewed audited governance arrangements, including for decision making, information technology, ethics and values or performance management. There were no reviews of risk management arrangements. Both auditors and their clients were of the opinion that their work in the areas of risk management and ethics were sufficient (Annex G, questions 24.20, 25.21, 26.22 and Annex H, questions 20.17 and 21.18). The survey identified that neither auditors nor their non-IPA clients were sure of the whistleblowing arrangements (Annex G, question 43.36 and Annex H, question 32.26 respectively)</p>	<ul style="list-style-type: none"> <li>• Develop annual audit plans that address the governance processes for;</li> <li>• Making strategic and operational decisions;</li> <li>• Overseeing risk management and control (see IAC 8);</li> <li>• Promoting appropriate ethics and values within the organisation, including whistleblowing arrangements;</li> <li>• Ensuring effective organisational performance management and accountability; and</li> <li>• Assessing the information technology governance of the organisation.</li> </ul> <p>As the audit approach matures and</p>	<p>Within IPA Project "Improvement of Budgeting system, Multi-annual Budget Framework and Public Internal Financial Control System", governance and control pilot audits (for four group of internal auditors) were performed in 2020 and internal auditor from centralized IPA internal audit was included. (attached are attendance sheets for governance pilot audits and report on activities from governance pilot audits)</p> <p>Based on Decree on establishment of internal audit in public sector ("Official Gazette of Montenegro" no. 070/19) and later Decree from 2021 (both attached in IAC 5),</p>	<p><b>Status:</b></p> <p><b>Partially implemented</b></p> <p>Based on auditees' response and obtained documentation, it is evident that some progress has been made in addressing this finding. However, in our opinion these issues need more and continuous attention in the future. We will monitor the implementation of recommendation.</p>	IV Q 2022

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		<p>expands, ensure that risk and control information is appropriately communicated across ministries and departments.</p>	<p>separate centralized internal audit unit for audit of IT systems in public sector was established in Ministry of Public Administration, Digital Society and Media. Currently there are three internal auditors including Head within Unit appointed.</p> <p>In March 2021, within Programme of continuous education of internal auditors, Ministry of Finance in cooperation with Human Resource and Management Agency organized and delivered online training on following topic "Governance in public sector with special emphasis on ethical culture and role of internal audit". (attached attendance sheets)</p>		
<b>IAC8</b>	<p><b>Auditing risk management.</b></p> <p><b>Priority level: High</b></p> <p><b>Body/-ies concerned by the finding:</b> Ministries</p> <p>The immaturity of risk management arrangements and the compliance-based approach to audits means that only risks and controls relating to financial and operational information, safeguarding of assets and compliance with laws are routinely examined during audits. As a result, the biggest risks to each</p>	<p>IACs to advocate (and support) the development of a plan to increase risk maturity in Ministries to enable them to recognise the strategic and operational risks that they face, including fraud risks, prioritise them and take proportionate and proactive action to manage them.</p>	<p>In December 2020, within Programme of continuous education of internal auditors, Ministry of Finance in cooperation with Human Resource and Management Agency organized and delivered online training on Risk management and role of internal audit for internal</p>	<p><b>Status:</b></p> <p><b>Partially implemented</b></p> <p>On the basis of documentation gathered and information provided by auditees', we concluded that this finding was properly treated during the previous period. Certain</p>	<p>IV Q 2022</p>

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	<p>Ministry may not be identified by management and the management of the risks that are identified is not challenged or evaluated by audit. In the survey, however, auditors and their clients were of the opinion that their work on risk management was effective (see IAC 7).</p>	<p>As risk maturity increases, carry out audits of risk management arrangements (the framework and governance processes, understanding and implementation) in a way that is proportionate to those arrangements.</p>	<p>auditors at central level (attached attendance sheet)</p> <p>Within IPA Project "Improvement of Budgeting system, Multi-annual Budget Framework and Public Internal Financial Control System" training on risk management (11-12 March 2020) and risk monitoring (1-2 July 2021) for staff of pilot institutions provided (attached attendance sheets).</p> <p>CHU and experts on IPA project helped Ministry of Finance and Social Welfare in preparation of risk register and in identification on key risk. Procedure for risk management process was prepared (attached procedure) and suggestions for prepared risk registers in pilot institution's was given.</p>	<p>education trainings and workshops related to risk management and the role of internal auditors within this process were organised. Also, engagement of CHU and experts in preparation of risk register and in identification of key risks was useful for internal auditors in public sector. Taking this into account, we consider this finding partially closed.</p> <p>We will monitor the implementation of recommendation through reviewing the annual audit plans and audit reports in the upcoming period.</p>	
<p><b>IAC9</b></p>	<p><b>Planning audit assignments</b></p> <p><b>Priority level: High</b></p> <p><b>Body/-ies concerned by the finding:</b> Ministries and the CHU</p> <p>The new, COSO-based approach to audit planning and performance has improved the rigour of</p>	<p>Refer to the relevant Ministry strategies, objectives and risks when planning audit engagements. (This will be facilitated by considering these matters as part of annual audit</p>	<p>This finding was particularly addressed on following trainings:</p> <p>a) "New methodology of internal audit work in the public sector" which were held for four group of internal auditors in 1st quarter of 2020.</p>	<p><b>Status:</b></p> <p><b>Partially implemented</b></p> <p>Based on documentation gathered and information provided by auditees', we</p>	

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	<p>planning for individual audit assignments but, as noted elsewhere, the focus is on compliance risks rather than on risks to strategies and objectives.</p>	<p>planning – see IAC 4)</p>	<p>(attendance sheets attached in IAC 2)                  b) “Internal audit fundamentals and application of methodology for work for internal auditors” which were held in second half of 2020 (attendance sheets attached)                  c) “Application of methodology for work of internal auditors in practice (case study) which were held in May 2021. (attendance sheets attached).                   During 2021, within IPA Project "Improvement of Budgeting system, Multi-annual Budget Framework and Public Internal Financial Control System", “Value for money” training program was delivered in four online sessions to 30 internal auditors on case study on ‘vehicle fleet management’. (attendance sheets from online trainings attached here in IAC9 while report on activities from Value for money training program attached in IAC7).</p>	<p>concluded that this finding was properly treated during the previous period. A number of trainings and workshops related to methodology of internal audit work in public sector and on strategic risk-based planning were organised. Taking this into account, we consider this finding mainly closed and propose reducing the priority level from high to medium.                   We will monitor the implementation of the recommendation through reviewing the annual audit plans (and supporting documents) as well as audit engagements of IAU in the upcoming period.</p>	<p align="center">IV Q 2022</p>
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<p><b>IAC 10</b></p>	<p><b>Contents of the Internal Audit Charter</b>  <b>Priority level: Medium</b>  <b>Body/-ies concerned by the finding:</b> The CHU</p> <p>The CHU provides a model Charter that is used as a basis by all internal audit sections. It does not include the following mandatory elements:</p> <ul style="list-style-type: none"> <li>• A definition of the nature of assurance and consultancy services that are provided;</li> <li>• Reference to the Core Principles;</li> <li>• The Mission of internal audit;</li> <li>• The complete IPPF Definition of internal audit.</li> </ul> <p>The Charter does not clearly set out the functional and administrative reporting arrangements for each IAC. It could make it clearer that audit determines its own plans and can audit any and all Ministerial activities.</p> <p>Some IACs also provide an audit service for outside bodies, but the nature of this assurance work is not set out in the Charter.</p>	<p>Amend the Charter to address the omissions identified.</p>	<p>Recommendation accepted and implemented</p> <p>Rulebook on methodology of work of internal audit in public sector (“Official Gazette of Montenegro“ no. 001/20) which must be followed by all internal audit units prescribes mandatory elements which Charter should consist of. Please see page 7 of Rulebook.(Rulebook attached in IAC3)</p>	<p><b>Status: Implemented</b></p> <p>Based on auditees’ response and obtained documentation, we concluded that recommendation is implemented and finding is closed.</p>	<p align="center">n/a</p>
<p><b>IAC 11</b></p>	<p><b>Roles beyond internal auditing</b>  <b>Priority level: Medium</b>  <b>Revised Risk Level: Low</b>  <b>Body/-ies concerned by the finding:</b> Ministries</p> <p>One CAE has provided significant support to the Ministry in developing risk management arrangements and risk registers. Neither the CAE nor the ministry recognised the potential conflict of interest but undertaking this work would make it difficult for audit to carry out a review of risk</p>	<p>Put in place arrangements that safeguard audit’s independence and objectivity should they provide advice and support in areas such as risk management. This could be managed by asking another IAC to audit such activities.</p> <p>Any arrangements should be formalised in the Charter and/or the annual audit plan.</p> <p>The audit manual should include further guidance on managing</p>	<p>Article 30 paragraph 4 of Law on governance and internal controls in public sector defines that the head of the internal audit unit and the internal auditor shall perform only internal audit affairs, while article 32 prescribes procedure in case of conflict of interest of internal auditors.</p>	<p><b>Status:</b>  <b>Partially implemented</b></p> <p>According to the auditees’ response and obtained documentation, we concluded that issues related to the potential conflicts of interest are regulated by the Law on governance and internal controls</p>	<p align="center">n/a</p>

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	management arrangements.	these potential conflicts of interest.	(Attached: Law on governance and internal controls in public sector attached in IAC 1)  In the following period, CHU will further improve guidance to overcome this finding.	in public sector as well as by Rulebook on methodology of work of internal audit in public sector. Within the Rulebook there is a control checklist for self assessment which contains questions which also treat this issue. However, in our opinion these issues need more and continuous attention in the future. We will monitor the implementation of recommendation.	IV Q 2022
<b>IAC 12</b>	<p><b>Keeping senior management informed.</b></p> <p><b>Priority level: Medium</b></p> <p><b>Body/-ies concerned by the finding:</b> Ministries</p> <p>While some heads of audit regularly report to senior management and the Minister, and sit on the senior management team, others do not. In the latter cases, auditors do not hear of emerging issues that might change their audit plans and senior managers are not kept informed of matters coming out of audits. The value of these discussions will increase as auditors take a more strategic and risk-based approach to their audit work. The client survey raised relationships with senior managements as an area for improvement (Annex H, question 39.33)</p> <p>All auditors provide an annual audit report, which is submitted to the Minister. However, these reports do not include many of the required areas.</p>	<p>The head of audit should report to senior management regularly and, as a minimum, discuss the audit plan for the coming year and highlight the findings of the previous year's audit work. Revise the annual audit report to include:</p> <ul style="list-style-type: none"> <li>• The purpose of the audit function, its authority and responsibilities;</li> <li>• The results of the quality assessment and action plan;</li> <li>• Significant risks identified during audits, including fraud risks and governance issues; and</li> </ul> <p>Resource requirements and the limitations placed on plans as a consequence of vacancies.</p>	<p>CHU prepared new Rulebook on content of annual report of internal audit work and execution of internal audit annual plan (“Official Gazette of Montenegro“ no. 071/19). (attached)</p> <p>In order to raise relationship between internal auditors and senior management, CHU conducted activities explained in IAC1.</p>	<p><b>Status:</b></p> <p><b>Partially implemented</b></p> <p>See proposal of status and comments for IAC 1.</p>	<p>See proposal of new deadline for IAC 1.</p>

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<p><b>IAC 13</b></p>	<p><b>Planning audit assignments</b> <b>Priority level: Medium</b> <b>Body/-ies concerned by the finding:</b> Ministries and the CHU</p> <p>While all auditors emphasised the importance placed on adding value in their work through making recommendations for improvements, this was not routinely referenced in their audit planning and reporting. Several auditors said that adding value was one of the things that they most enjoyed about their audit work (Annex G, question 52.45) and clients mentioned that auditors did indeed add value (Annex H, question 4.3)</p> <p>Each audit is initially assumed to take 30 days. Some audit functions adjust this allowance according to the level of assumed risk of the audited activity (20 days for a low risk audit and 40 days for a high-risk audit). However, there is no consideration of the days that are actually needed to carry out an audit; instead audits are planned to fit this initial allocation.</p>	<p>Ensure that opportunities to add value through identifying potential improvements to governance, risk management and control processes are included in audit planning</p> <p>Allocate resources to audits according to how much time is necessary to adequately achieve its objectives.</p>	<p>Within IPA Project "Improvement of Budgeting system, Multi-annual Budget Framework and Public Internal Financial Control System", governance and control pilot audits and "Value for money" training program were performed in 2020 and 2021. More details on activities in IAC 7 and IAC 9. This finding has been addressed through different CPD trainings organized in cooperation with HRMA (attached list of trainings in IAC15)</p> <p>In March 2021, within Programme of continuous education of internal auditors, Ministry of Finance in cooperation with Human Resource and Management Agency organized and delivered online training on following topic "Governance in public sector with special emphasis on ethical culture and role of internal audit". (attendance sheets attached in IAC7)</p>	<p><b>Status:</b> <b>Partially implemented</b></p> <p>Based on documentation gathered and information provided by auditees', we concluded that this finding was properly treated during the previous period. A number of trainings and workshops related to methodology of internal audit work in public sector and on planning audit assignments were organised. Taking this into account, we consider this finding partially closed.</p> <p>We will monitor the implementation of the recommendation through reviewing the annual audit plans (and supporting documents) as well as audit engagements of IAU in the upcoming period.</p>	<p align="center">IV Q 2022</p>
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			In the following period, CHU will further work to overcome this finding.		
<b>IAC 14</b>	<p><b>Evidence of supervision.</b></p> <p><b>Priority level: Medium</b></p> <p><b>Body/-ies concerned by the finding:</b> Ministries and the CHU</p> <p>There is evidence of engagement supervision in the form of signatures or initials on working papers. However, no record is kept of any points that were identified during the review nor how those points were cleared.</p>	Develop review sheets to record items raised and cleared. These documents should be retained in the audit file.	Rulebook on methodology of work of internal audit in public sector (“Official Gazette of Montenegro“ no. 001/20) which must be followed by all internal audit units prescribes in annex 4 (page 77) control checklist which must be retained in the audit files. (Rulebook attached in IAC 3).	<b>Status: Implemented</b>	n/a
<b>IAC 15</b>	<p><b>Audit opinions</b></p> <p><b>Priority level: Low</b></p> <p><b>Body/-ies concerned by the finding:</b> Ministries and the CHU</p> <p>Audit reports do include an opinion, but this is hidden in the text. In addition, the opinions are not formalised, for example by having four levels of opinion with clear definitions for each level.</p>	Clearly define different levels of audit opinion, discussing and agreeing this with senior management. Ensure that the opinion is given adequate prominence in audit reports.	<p>This finding was addressed within Programme of continuous education of internal auditors during numerous trainings held.(attached are CPD trainings for internal auditors held in cooperation with HRMA since 2019). CHU will further continue do advise, encourage and guide internal auditors to overcome this finding through implementation of Continuous Professional Development Programme.</p> <p>CHU conducted horizontal quality review of internal</p>	<b>Status: Implemented (preliminary)</b>	n/a

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			audit units' reports for 2020 and based on conducted review, opinion is given adequate prominence in audit reports. (Attached horizontal quality review report)		
<b>IAC 16</b>	<p><b>Recognising satisfactory performance</b></p> <p><b>Priority level: Low</b></p> <p><b>Body/-ies concerned by the finding:</b> Ministries</p> <p>Reports are written on an exception basis and satisfactory performance is not acknowledged.</p>	<p>Ensure that satisfactory performance is acknowledged in audit reports. This will be easier if reports are risk-based as a risk rating can then be used.</p>	<p>This finding was addressed within Programme of continuous education of internal auditors during numerous trainings held (CPD trainings for internal auditors held in cooperation with HRMA since 2019 attached in IAC 15).CHU will further continue do advise, encourage and guide internal auditors to overcome this finding through implementation of Continuous Professional Development Programme.</p> <p>CHU conducted horizontal quality review of internal audit units' reports for 2020 and based on conducted review, satisfactory performance is acknowledged in audit reports. (Horizontal quality review report attached in IAC 15)</p>	<p><b>Status:</b> <b>Partially implemented</b></p> <p>According to the documentation gathered and information provided by auditees', we concluded that this finding was properly treated during the previous period. A number of trainings and workshops for internal auditors in public sector were organised. Taking this into account, we consider this finding partially closed.</p> <p>We will monitor the implementation of the recommendation in the upcoming period.</p>	IV Q 2022

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<p><b>IAC 17</b></p>	<p><b>Claiming conformity with the International Standards.</b></p> <p><b>Priority level: Low</b></p> <p><b>Body/-ies concerned by the finding:</b> Ministries and the CHU</p> <p>The conformance statement is not used in audit reports but it is included in the Charter and in self-assessments that have been reported.</p>	<p>Do not use the conformity statement without a quality assurance and improvement programme. Instead use a statement to recognise the importance of the international standards in carrying out internal audit work.</p>	<p>This finding was addressed within Programme of continuous education of internal auditors during numerous trainings held. (CPD trainings for internal auditors held in cooperation with HRMA since 2019 attached in IAC 15). CHU will further continue do advise, encourage and guide internal auditors to overcome this finding through implementation of Continuous Professional Development Programme.</p> <p>CHU conducted horizontal quality review of internal audit units' reports for 2020 and based on conducted review, internal audit units do not use conformity statement.</p> <p>(Horizontal quality review report attached in IAC 15)</p>	<p><b>Status: Implemented (preliminary)</b></p> <p>Based on auditees' response and obtained documentation, we concluded that recommendation is implemented and finding is closed.</p> <p>However, we will further monitor this issue in the upcoming period.</p>	<p align="center">n/a</p>
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**Table 18**

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

Not applicable.

**8. OTHER INFORMATION**

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

Not applicable.

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

Not applicable.

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

Not applicable.

## 9. OVERALL LEVEL OF ASSURANCE

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

The assurance on the proper functioning of the management and control system regarding the 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES) is based on the combined results of both the system audits (system assessment – please see section 4 above) and the audits of operations (please see section 5).

As a results of the system audit and conducted follow-up activities, the management, control and supervision system established for IPA II 2015-2017 SOPEES is assessed as „*Works, but some improvement(s) are needed*“. The results of the audit of operations confirmed this level of assurance and we consider that it is appropriate to issue an unqualified opinion on the proper functioning of the MCSS.

The assurance on the accounts is based on the results of the Audit of accounts as described in section 6.3 of this AAAR. Therefore, 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 thus, it is appropriate to issue an unqualified opinion on the reliability of Annual Financial Reports or Statements/Annual Account.

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

Not applicable.

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

The necessary corrective actions to be taken regarding the deficiencies identified during the system audit and audit of operation are presented in Chapters 4 and 5 of this report. The further implementation of the recommendation will be monitored in the following period.

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

During the Audit of accounts we determined that data, presented in AFR for 2021 within column 12 – Total Open Pre-financing, is not correct. Namely, we determined that recoveries were not adequately treated through CFCU's accounting system which led to the situation that the amount of open pre-financing was not reduced for the amount (2.166,68 EUR) of returned funds (recoveries) and accordingly item 12 in AFR for 2021 is not completely presented in correct amount. Therefore, this correction must be implemented through IA's accounting system and included in next annual financial report.

### 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	Amount	%	Total number of units in the population	Number of sampling units for the random sample	Amount	%	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
IPA	C(2015) 9051 09/12/2015 CRIS decision No. 2015/037-895	Multi-annual action programme for Montenegro on Employment, Education and Social policies	1.877.790,26	412.223,54	21,95	25	5	0,00	/	/	/	/	/	/	/